January 2021 Update With Justin Ford

Bob Irish
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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 that Justin has been an extraordinarily successful real estate investor. 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 this every month – you need to know that Justin is very conservative, super picky when putting together his deals, and as a result, opportunities to invest alongside Justin don't come about frequently or on any set schedule.

Having said that, there may be an opportunity for a lot more subscribers to invest alongside Justin. Justin is putting together… Well, I'm not going to steal his thunder.

Justin, it's good to have you back. How are you doing?

Justin Ford: I'm doing great, Bob. Happy New Year to you.

Bob: And same to you.

I understand you're putting together a fund and you're looking to raise somewhere between $25 and $35 million. Can you tell us a little bit more about this?

Justin: Yes, Bob. It'll be called the CAP Plus Diversified Income Fund.

The reason we're launching a fund now – we've done a lot of individual raises over the years, as you know, and we've been fortunate to have been successful on all our deals, I'm glad to say. We've had our challenges, like anything else. We hope we've learned from those challenges.

And we think that right now, there's an historic opportunity to pick up some select assets and benefits from some tremendously low interest rate, long-term amortizing debt.

When you combine it with an asset, multi-family, let's say with a 6% yield with that debt, you can get cash on cash yields in the 7–9% range and total returns – not counting appreciation in the low-, sometimes mid-double-digits.

So that's going to be our main focus – using our CAP strategy, which is cashflow amortization-positive leverage… combining it with a focus on assets we can buy below or close to replacement costs in select value in growth markets. That's what we intend on doing.

Bob: Justin, if our subscribers are interested in this, what should they do?

Justin: To keep it simple, if they send an email to justin@paxproperties.com with the subject line "CAP Plus Fund," we'll put them down in the order received, and they'll be the first to receive the offering memorandum. We're working on that now.

We have a couple attorneys working on the documents as well. So they'll be among the very first to receive that offering memorandum as soon as it's ready. We expect that to be ready sometime late this month.

Bob: Okay. So by sending that email, they'll be first in line to receive the offering memorandum. That's great. Good deal. Well, I'm looking forward to talking about that next month.

How's the last month gone? Any updates or anything new from our current investments?

Justin: Well, it's a little bit more of the same where we were last month. All our properties are performing well.

The one struggler is the Baymont, but that one is losing a manageable amount. And we're working on restoring that one back on its old footing.

But one of the more interesting highlights is the Equus Inn – even while we were finishing renovations – rose to as high as No. 4 on the market on TripAdvisor's, from number 13 previously, which is very interesting.

Bob: And just to clarify, that's the property in Ocala? There may be some folks who just joined us.

Justin: You're right. Yes. The Equus Inn is in Ocala. Equus is Latin for horse, and Ocala is a very big horse community. They call themselves the Horse Capital of the World and they're finishing the largest equestrian center in the United States.

And Ocala is a very high growth market. So we're finishing there, and already in TripAdvisor we're going up very strongly.

We've picked up some nice group sales, as I mentioned last time – the U.S. Army, some local businesses, groups like that.

And today, we're installing there – I just got a video over my phone – the brand-new video board on the outside. We invested around $30,000 in a video board under our sign. And that video board shows our rooms in crystal clear depiction. And we'll roll in little video snippets as well – from the rooms, to our lobby, to our stainless-steel self-serve wine and bar, to the new Pergo flooring outside in the pool.

We feel our rooms and amenities are so much above those in this price category of $90–$110 that when we're showing them outside – along with a few other things we're doing outside, like draping this big, beautiful Spanish moss tree in white lights, it'll catch the eye, people will know – soon, we'll be recognized as the best value in the city.

Bob: Wow. That sounds really cool.

Justin: We're finishing all the renovations there by February 15, inside and outside. We're working on the last group of rooms right now. So we're very excited about that.

Bob: Oh, that's terrific news. That's great. Anything to report on Melbourne?

Justin: Melbourne continues to pay for itself.

We're about to be going into season soon, which will be very interesting. High season in South and Central Florida is February and March. Those are the biggest months of the year, with March being the number one month, and February being the number two month.

Of course, we're still in COVID-19 and we're coming out of it. The vaccines are just starting now. But even through all of COVID-19, Melbourne never lost a penny. It was amazing. Even through all of COVID-19, it paid all expenses and continues to do so.

We were ranked No. 3 in the market, last I looked. So Melbourne is performing very well.

There, we're upgrading a few more pieces of furniture that were getting older on us, since we first renovated in 2014–15. But once we're done with that, Melbourne will have a whole new life. It's already performing great.

My hunch is hospitality is going to make a strong comeback. I don't know if it's this year, or the second half of the year, or if it's going to be next year, but every time COVID-19 restrictions have let up a little bit… you and I live in Delray Beach and you see how packed Atlantic Avenue gets.

Bob: Yeah.

Justin: Even in the summer during COVID-19, it was packed – it was crazy. And then, the gyms. I work out with a private gym. But when I went to the gym for a massage on my shoulder recently, the gym was packed… the minute they started to lift COVID-19 restrictions.

People are dying to get back to a little bit of life as normal. And I think hospitality is going to receive *quite* a nice rebound.

But, as I say, Melbourne has been doing well throughout. So when we get to anything resembling normal with hospitality, I think Melbourne will do exceptionally well.

Bob: Well, I agree with you. I think people are dying to get back to normal. And certainly, if Melbourne is doing this well in this environment, look out when things get back to somewhat normal.

Last time we talked, you were talking about a refi at Governor's Square – the Renaissance. What's going on with that?

Justin: We continue to perform very well at Governor's Square.

We had some move outs at the end of the year, and we had fixed some electrical issues with a main breaker on one of the buildings that needed to be replaced. That slowed us up a little bit. But long story short, we're still at about 97.5% occupancy, maybe 98% economic occupancy.

We're going to review our books at the end of this week. And we expect if we're still generating the numbers we want to generate by next week, we should be applying for our refi.

It's actually what's called a supplemental loan. And the way multifamily prices have been rising during COVID-19 – it's a real unexpected consequence, mostly because of the low interest rates. But also, there's a high demand for affordable, quality, residential housing in the working- and middle-class segments of the market.

I was conservatively thinking our property could be valued at $20 million, which would give us $14 million in proceeds, which would return all investor cap, or get them caught up on the preferred return and return a good chunk of their capital.

I think it's quite possible our property could be valued significantly higher. I don't want to speculate too much, but I'm just going by the math in the market.

Because we're out there right now, as acquisitions people, we're looking at deals left and right. We look at over a hundred deals a month throughout the country. So just based on what I'm seeing, we could be valued significantly more than what I was initially anticipating, which would be good for loan proceeds and for bringing down the overall cost of capital.

But again, I don't like to count my chickens before they hatch. So we'll know for sure if we're applying by next week, when we have a renewed review of numbers – and at the very latest would be applying in early February.

I would expect that fund getting caught up entirely on preferred return and returning a significant portion of investor capital by April.

Bob: Well, that's exciting news, Justin. Let's finish off our call with – if you've got anything – from Seven Hills. Anything new going on there?

Justin: The same guy who sold us the video sign at Equus has a temporary sign he leases out. We struck a great deal with them where we rented that sign at Seven Hills in Tallahassee.

So we have a similar-size video board now at Seven Hills. We've had it there for about a week and we're measuring our spots again.

Seven Hills has *beautiful* rooms and amenities, *truly*. Forget about best in class – best in the city, period. We're still rated No. 2 in the market out of 61. We were as high as No. 1 – we'll recapture No. 1 again.

So the guy gave us a great deal, temporarily, to play with the sign for a month. We're paying around $500 a month. So we're going to experiment with those.

And I have to get with my marketing managers – we're starting to see a steady increase in revenue for that property, even though it was already paying for itself also throughout COVID-19. That was because of the special deal we have with that public charity, where they rented three quarters of our hotel.

But I see our numbers still going up with that other fourth building that we have for the regular market. I haven't had chance yet to sit down with the marketing people and go through the results and see if we attribute a lot of that to the sign. We think that kind of marketing may be a bit of a game changer for us – if we're correct in these tests – because we have such superior product.

No matter how nice your hotel looks, if people can see what the interior looks like when they drive by, and then your friends come to town, well, where is everyone going to stay? You'll tell them, "There's this great place." You're having a wedding, a graduation, people go into town, and you'll tell them about this great place.

We want to make it clear to people what's inside the Cracker Jack box and that we have a beautiful hotel for an amazing value. So that's an exciting thing for us. We think that's going to be a game changer.

This month alone, even during COVID-19, that hotel is going to bring in about $155,000, which for COVID-19 is remarkable.

Bob: Well, I'll look forward to hearing the results of this test a little bit more on our next month's call, Justin. Meantime, anything else you'd like to add before we sign off?

Justin: Nope. Overall, we're very grateful that we've been able to do as well as we have through this difficult time. We're prepared to do what's necessary over the next three, four, six months – as long as it takes – to finally shake off the COVID-19 economy.

We like our prospects for 2021 and beyond, Bob. We think the folks who make it through the tough times and do well usually have an opportunity to do well in better times. We hope that's the case with us.

Bob: Well, okay, Justin, thanks so much for the update. I'm excited to hear the details on your new fund, and I'll check in with you in about a month.

Justin: Excellent. Thank you, Bob.

Bob: Thanks, Justin.

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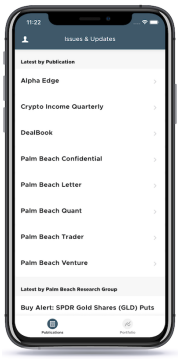

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