October 2021 Update With Justin Ford

Bob Irish
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As one of our privileged members, you get access to real estate expert Justin Ford's monthly DealBook updates.

DealBook covers special situations 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 how his previous real estate deals are performing. Justin also discusses the latest trends in the market, what to look for when purchasing property as an investment, and much more.

You can listen to my monthly interview with Justin or read the transcript below.

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Transcript

Bob Irish: Welcome to our monthly call with Justin Ford of Pax Properties, 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. Through real estate booms and busts, Pax Properties has never failed to produce a positive result for investors or missed a mortgage payment.

Now, I say this every month, but just as a reminder, if you don't have time to listen to this podcast, go to paxproperties.com. You can get an update there on all the investments that Justin is involved with right now. But please stay tuned for the podcast. I think it's going to be interesting.

Justin, it's great to have you back. How're you doing?

Justin Ford: I'm doing well, Bob, thank you very much. How are you?

Bob: I'm doing super. Happy to be back in South Florida. It's delightful. My apologies to anyone in the rest of the country who's having crappy weather, but it's delightful down here right now.

Justin: You're absolutely right about that, Bob. Last night, I was on my back patio and it's the best time of year right now. It's amazing how cool the breezes are and how beautiful everything is. It's a great time.

We probably shouldn't mention that because we've got so many people coming down here already. So let's say that we're expecting an earthquake tomorrow and then there's a tornado.

Bob: All right. So Justin, how are things going at Pax Properties?

Justin: Things are going well, Bob. We're emerging from the pandemic quite robustly, I would say. I could start in Melbourne as we typically do and just wander my way north.

Bob: Let's do that. Let's start in Melbourne, the former "Chateau Ghetto."

Justin: That property continues to do very well. This month we're on track, I believe, for about $180,000 maybe $190,000 in sales. We're doing some reinvestments there.

We're going to be putting in all new mini split air-conditioning units, which will make the room itself a little more attractive. They're also much more energy efficient. They're quieter, and they're an overall better experience for the guests. It's going to be beautiful.

It's going to really take it another step up. Combined with our two-room suites for the price of a regular hotel room, these units are going to strengthen our already considerable competitive advantage.

At the end of this month, we're putting out our third-quarter reports. That's for all the properties we talk about here and some other properties we have. Melbourne's going to be paying this month a 12% cash-on-cash yield, so it's safe to say Melbourne is doing very well.

Bob: Now, just to be clear, those quarterly reports, will they be available on paxproperties.com?

Justin: They will be. The ones that we speak about here, we make them available even for folks who are listening to this podcast to see so they can get an idea of what we do.

But certainly, for our investors. They'll see that and they'll see all the other investments that they're involved in, including the new ones. And yes, paxproperties.com will lead them to those links.

Bob: Okay. So let's talk a little bit about the Equus in Ocala.

Justin: Right. Equus is the next one there, and Equus is our newest hotel, as you know. It's got 152 units, including eight suites, and we finished that one in June. We had the grand opening, but we've been open all along while we were renovating, and we won the Trip Advisor Award for that property.

We've now moved up to No. 2 in the market and on Trip Advisor. We were 13 when we bought it, and then we moved up to four, three, and we just hit number two on Trip Advisor. So that continues to do well.

We're on pace there for about $175,000 in revenue this month, which is good. We're operating more efficiently than ever. We'll bring a lot of that back to the bottom line.

That property, even while we were renovating, paid a consistent 8% cash-on-cash yield. We did cease that for about three quarters during COVID, as you can understand. But we've been back and paying a good cash distribution, and we're going to be paying an 8% cash-on-cash yield again in about 10 days when we send out our quarterly report and payments.

So that property is doing very, very well and the community is really embracing us. Local businesses – especially the Equestrian Center – are sending a lot of business our way, so I really like our prospects going forward. It's by far the best hotel in Ocala in the $100 to $125 price range.

You can go on the website (equusinn.com) and see why we say that. So we like our prospects going forward at the Equus.

Bob: Congratulations on moving up the ranks on Trip Advisor with Equus. That's great. Let's move a little bit west and go to Tallahassee. Talk to me about the Baymont.

Justin: The Baymont is doing okay. It, too, is improving. Not as much as we'd like, but it's getting there.

We have a new general manager, and so far, so good. All the rooms have been completely renovated. It's a good property. Again, we've got a property that's seeing its highest revenue since COVID. It's going to come in this month around $135,000 to $145,000, and it's been posting positive operating profits for the last four to five months. It doesn't always post enough to cover its debt service, but we're getting closer.

Right now, it's covering its debt service. Initially, it didn't do that. Initially, it wasn't even posting positive profits, of course, during COVID. That was our hardest hit market.

But now it's coming back strong, and at the end of this month we're paying another distribution – just as we did last quarter – though there it's only a 5% cash-on-cash yield. In a world of nearly zero interest rates, that's still fairly competitive. So again, we're moving in the right direction at Baymont.

Bob: Well, that's good to hear, Justin. Let's talk about Seven Hills.

Justin: Seven Hills is the jewel in our crown as far as the hotels go. It's right up there with Equus. I have a real tender spot for Seven Hills though because Equus is a great property, but Equus is on about two and a half acres. It's right in the middle of town, whereas Seven Hills Suites is on nine acres, and they're sloping acres and it's just a beautiful layout.

I just love the land. So all the things we did with the property in Equus, we did with Seven Hills first with beautiful rooms, a gorgeous lobby, great amenities, a pool and so forth. But it's on this great canvas in terms of the land.

So that continues to do very well. That's bouncing strongly out of COVID. We pivoted there, and we made good money during the pandemic because we rented out three-quarters of our property to a homeless shelter. That ceased back in April, and we now have all the rooms basically back up.

It took a while to get that because of all the supply chain constraints. We were waiting for everything for months because we put in all new mattresses, linens, etc.

So long story short, we're on track now to have roughly $180,000 this month, but I'd have to double check that number. Overall, though, a very strong emergence. Still at number two in the market. We've been number one before, and I think we'll grab the number one spot again soon.

But we're paying a distribution this month of 5% on that property. The reports are coming out in about 10 days as well. I think Seven Hills is going to be a very strong hotel for many, many years to come. I'm excited about coming out of COVID with that property.

Bob: That's great news. Now, I understand that we've had a refi at Governors Square, but there's some other stuff bubbling up. Let's talk about Governors Square for a little bit.

Justin: So we mentioned in our last podcast that we refinanced Governors Square. We have somewhere between $15 and $16 million into that property, including a nine-million-dollar purchase, and then six and a half million or so in [capital expenditure]. And that's a beautiful property.

It's a best-in-class, B-plus apartment community. We're operating at typically 97-98% occupancy. Through COVID, of course, we had some challenges with collections, but we recouped the bulk of that by patiently working with the tenants, and the government also helped with some of the rents.

So we got appraised. Even though we were in it for about $15 million and change, we got appraised for $21.3 million for the refi. That gave us a bridge loan of around $13.7 million. So we caught up on all investor pref. If you had a couple of hundred thousand dollars invested in there, you just got a check for close to $60,000 about six weeks ago.

And now, we're doing the long-term refi. So with the long-term refi, we got appraised again. Instead of $21.3 million – that was the appraisal three or four months ago – we pushed them to get another appraisal because we thought that was low, and we paid another five grand to do it.

And it was worth it. The second appraisal came back at $22.4 million.

So now our permanent refi, instead of being at $13.7 million, which is what the bridge is, will be at around $18 million. So now we'll return a good chunk of change to folks. Of that, $200,000 investors will probably get $120,000 back. And on the remaining $80,000 invested, they'll see a cash-on-cash yield of 10% to 12% – maybe 14% – consistently going forward.

So that's the situation we're looking at, which I think you'll agree is a very positive one.

Bob: It is very positive. But my understanding from our prior conversation is that these appraisals, at least based on what you're seeing in the market, may be very low.

Justin: Yeah, they are. Even the updated appraisal of $22.4 million.

So the appraisers in the boom of '07 and so forth, they over-appraised. And now, ever since then, they under-appraise. It's understandable. But the real market value, especially in today's market, is consistently higher than that.

I received an offer from a significant, somewhat known player based out of New York, 27 million on that property. That was a verbal offer. It wasn't an LOI yet or anything. And I do have some of the biggest brokers out there coming at us and telling us they can get us somewhere in that neighborhood and perhaps more. So we've had a nice conundrum.

The choice is whether we go out and just do this refi, lock in that 3%, 3.25% rate for 35 years, return a good chunk of investor capital, and then sit on 12% cash yields for years going forward? That's pretty enticing. Or do we sell and take our money off the table.

I've decided to market the property. I'm going to let one of these brokerages market it for a short-term period – about 45 days – and we're going to see what the market will bear. We've had a lot of unsolicited offers in the 25 to 27 range. We're going to see if we can get someone who lands somewhere around there, and perhaps a bit higher than that. We'll see. I'm not sure, but if we don't get the number we want, we'll go ahead with the refi, which will probably happen around February.

The idea, though, is that we want to... We're selling this property right now on what's right around a four cap. A four cap means you're making 4% in unlevered terms on your money.

So let's say we're selling the property for $10 million. That means when you sell a property for $10 million at a four cap, it's making $400,000 or 4% of the 10 million. What we do is we take that 10 million, we sell it at that four cap, and then we roll it into another 10 million that we're buying at a six cap where it's making $600,000. Does that make sense?

Bob: Yeah. I was going to say one of the problems with any sale is what do you do with the money. I mean, what do you reinvest in? And what you're telling me is you're going to be reinvesting in something that is, in essence, paying a higher yield or a better cap rate.

Justin: Correct. It'll have a higher yield, and when we put today's low-cost debt on it, our cash-on-cash yield will be greater still. It will also be closer to replacement cost, which is a good defensive point to have in our favor. And it'll be in a market that shows value and growth.

This is typically what we do. We're rolling from the higher-priced market into a more value market – and then let that do its thing over time and create value. And we like that. It's not easy to find that value, Bob. But there are pockets of the country where we are finding it.

Bob: Well, Justin, if people are interested on where you would be redeploying this capital or where you're investing right now, can they find out on your website?

Justin: Absolutely. That'll lead them to more detail on all the types of things we're looking at and our thought process on the market today.

Bob: Well, I would encourage everybody listening to go to paxproperties.com and get some insight on where Justin is seeing opportunities right now.

Justin, anything else before we sign off?

Justin: No, Bob. It's been a real pleasure. Welcome back to Florida. I know you just got back from Utah. I'm heading out to Utah next month, actually. But it's always a pleasure to talk to you.

Bob: Thank you, Justin. I look forward to catching up with you next month, and I'm very excited to find out what kind of offers you're going to be getting for Governors Square.

Justin: Me too.