November 2021 Update With Justin Ford

Bob Irish
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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 that Justin's been an extraordinarily successful real estate investor. Throughout real estate booms and busts, Pax Properties has never failed to produce a positive result for investors or missed a mortgage payment.

For those of you who would like more detail on the deals that you have been invested in than we're able to provide in this short podcast… log into paxproperties.com and all the quarterly reports will be there. You can pore over them to your heart's content.

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

Justin Ford: I'm doing great, Bob. I'm sitting looking outside a window here on the Pacific coast of Nicaragua in Rancho Santana. It's a beautiful place to work, and it's good to be talking to you again.

Bob: Wow, that is a beautiful place to work, having been there a few months ago. Great stuff. So let's get right to it, Justin. How are things going at our properties? Maybe we'll start at Melbourne.

Justin: Sure. Melbourne had another fairly good month. For the 12th month in a row during COVID, we posted positive EBITDA (earnings before interest, taxes, depreciation, and amortization). So I'd say that's remarkable, given those circumstances.

Now the challenge is going to be transitioning out of COVID. Melbourne was largely a market rate property, even during COVID. But what happened was we accepted some small groups – church groups and other associations – to try and help people who were down on their luck. We had to do what was necessary to sort of triage operations and also make sure we generated as much cash as we could.

Now we're transitioning out of that. We said goodbye to three or four of the small groups who were helping us there.

And our sales manager has done wonderfully. She's struck new kinds of deals. For example, a project we've been working on for a little bit is with local real estate agents… When you're selling or you're buying a house, you need a temporary place sometime, sometimes for a few weeks, and we have this deal now with a lot of realtors in the area.

And I think it just recently brought in about $15,000. It's indicative of the type of thing we're able to do again.

We were connecting with a large sports group, and this month we're on track for maybe our best month since COVID. We're projecting about $195,000 in revenue and about 42,000 in EBITDA. There are some setbacks, we have to redo some major electric panels that aren't up to code anymore, stuff like that. But there's always ups and downs, but overall, it's *very* positive. We think we have good prospects for having an outstanding 2022.

Bob: Well, that's good to hear. I know that you made a distribution recently. That was terrific to see.

Justin: Yeah, that was 12.5%, actually. I think that was our highest cash-on-cash yield during COVID, so that's a pretty substantial distribution.

Bob: Yeah, it sure is. Let's go to Tallahassee and talk about the Baymont.

Justin: Sure, the Baymont is one that's suffered the most of all out properties. Its comp sets, all the properties it competes with, are down 26–27% since 2019, so it's still below pre-COVID levels. We lost about $47,000 and $106,000 in sales last month. So Baymont continues to be our challenge, but we've been there before. We're well capitalized, and Pax always supports its properties through these times.

If we can't finance it through the market temporarily, Pax has always contributed loans at zero interest to make it through difficult times. But the Baymont is like a lot of the properties in that it's facing higher expenses too. We'll talk about them as we go through other things because, as you know, it's hard to hire people in the current market.

With all this money printing and all the [stimulus] checks that went out and everything... And even though it's now being decelerated, we haven't transitioned out of that entirely yet. So it's hard to hire people because when you do hire them, you have to pay more, which is fine.

But when you're short-staffed, you end up paying agencies, which end up charging a premium. And the few payroll people you have on payroll, you're paying overtime.

So, that's a real challenge we're facing right now. Baymont took it on the chin last week with that, but we're looking very hard at other ways to deal with that property. I've had a couple of brokers look at it recently, and we've done our own studies, and we know we can sell it at a certain point where we can return all investor capital and give them a decent, positive return, in addition to what they've already made. Plus, we've already returned more than half their capital through refinancing.

But I think there's greater potential for Baymont long-term. And for that reason, we're looking into possible different uses of that real estate. We're looking into either converting it to micro apartments or even assisted living. We think assisted living might be very promising because it wouldn't require that much redoing. But that's where we're at with Baymont right now.

Going forward this month, we're heading toward a modest positive EBITDA, which we'll take. And again, long-term we think it's going to take a little longer to come out of the rough spots in Baymont, but we're slowly getting there, and we have a plan for possibly re-imagining the property entirely.

Bob: Okay. Well, that's very interesting. Assisted living or micro apartments, good stuff. Now let's go across the street. What's going on at Governors Square?

Justin: So Governors Square is doing well. Last month, we did $165,000 in revenue. And of that, we brought close to $85,000–90,000 to the bottom line. The challenge there is now that the eviction moratoriums have been lifted a few people are... let's say, taking advantage of the situation.

We had six evictions last month, and we have four going this month. That's to be expected given the situation we're faced with. But we generally recoup a good deal of the money – the arrears and the delinquencies. Either the tenants pay up by the end of the month, or a little slower in this market, or the Florida state government rental assistance eventually makes up for that.

In fact, our apartments are such best-in-class that as we get out the tenants who are not responsible, we're bringing in new tenants. And our new tenants lease at $50 higher per unit, which is over $8,000 a month more… over $100,000 more a year.

That $100,000 that flows directly to the bottom line is essentially worth about $2 million in today's market, a little bit more. So, that property is doing quite well. And speaking of market value, I think I mentioned on the last call that we were entertaining whether we would sell it or not. Usually we like to hold things very long-term. You remember that?

Bob: I sure do. You were putting some lines in the water, and I'm interested to hear whether you've gotten any bites.

Justin: Well, we signed with a broker. The same one we bought it through 4.5 years ago, and it's the same brokerage house that gave us a couple good deals out in Oklahoma recently. That same brokerage house we signed with, they listed it. They've had it on the market for about a week or so. I'm holding off on even inquiring because I'm busy with other things until mid next week. But I know we've gotten some traction.

I know their very lowest offers are going to be a very meaningful number. The question is, are we going to get the top number we're looking for, or even close to it? I like our chances either way. If we decide to hold, we've got a great property. We're going into a very low-cost refi (refinance) that will return a lot of investor capital and produce double-digit cash-on-cash yields for years to come.

Bob: Good stuff, Justin. I guess maybe next month's call, where we'll find out if you've gotten an offer you can't refuse. Let's go to Seven Hills. What's going on there?

Justin: So, Seven Hills, that was a tough month for us. We were expecting to bounce back a little bit better, but we did not. We had groups canceled as FSU (Florida State University) continued to lose some games. We can't really depend entirely on them, and the Delta variant still made it tough for us, including higher expenses.

We had a money-losing month, but we're growing in the right direction. And this month, we're heading toward a very strong month of about $165,000. So we're finally starting to emerge from the woodwork. We took those steps back to take steps forward.

We let the group that subleases most of the property go in April because we want to become a strong market rate property again. But we continue to be strong financially because we have cash from refinancing and from our corporate support.

Again, I think this is going to be an extremely profitable hotel. It's still rated No. 2 in the market, it has tons of awards, and you can see this on our website sevenhillssuites.com. This property's really just suffering from the doldrums in that market right now: labor shortages, high-cost materials, the slow pace we had getting all those materials delivered to refurbish our hotel, and the hospitality and market coming back in general have slowed things down. But it is a beautiful property. It's recognized as such, and I think it's going to be extremely successful in 2022.

Bob: All right. Well, let's finish things off in Ocala. What's going on with Equus?

Justin: So Equus is our newest property in the individual property portfolio. Equus, which had its official opening in June, has had five months in a row of positive EBITDA, even though it just launched… Even though those months were in COVID. Additionally, when we bought it, it was ranked No. 13 on TripAdvisor. Then it went up to 9, then 4, then 3… Now it's No. 2 in the market. And I think it's going to reach No. 1 soon.

It's also a beautiful hotel. That website for that one is equusinn.com. You can check that out. It's in a strong, high-growth market. And we're in our sixth month of consecutive profits, even during COVID. November should be the sixth month, where we're projecting about $32,000 in profits, and about $185,000 in operating revenue. We like the way things are going at Equus very much.

Bob: Well, that's good news out of Ocala. It sounds like it was a pretty decent October. And I think as you've said, with all these properties we're looking forward to a better 2022. Again, for everyone listening, Justin has put much more detail on all these properties on his site, paxproperties.com. So log in there if you want some more information. Justin, anything to add before we sign off here?

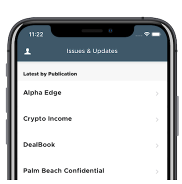
Justin: I would just say that I just got back from an investor conference, and one thing that was reiterated for me was that the valuations in a lot of these assets just continue to skyrocket. So for investors who are investing now, you have to find what I call the "stealth growth markets." The ones that have good, stable, moderate growth.

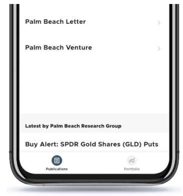
But you can get deep value instead of paying this crazy premium for hyper growth, which may not be sustainable as far as the prices people are paying. There's a way to invest in certain markets – which we've been doing recently, that we find are very interesting.

And I think that people should focus on moderate, stable, long-term growth. Focus on deeper value and doing all the CAP strategy stuff, like making sure you have positive leverage, fixing your interest rate, and investing for the long-term. I think that's going to be the best way to be successful as an investor going forward.

Bob: That's good advice, Justin, and I look forward to catching up with you next month.

Justin: Thanks, Bob. Appreciate it.





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