

Bob: Bob Irish here with our monthly call with Justin Ford of Pax Properties. Today we're going to update you on all the standalone investments in the state of Florida. In addition, we're going to keep you abreast of what's going on beneath the surface of the cap plus diversified income fund now. Look, I say this every month, but I can't help bragging.... throughout real estate booms and busts, Pax Properties has never failed to make money for its investors and they've never missed a mortgage payment. I say that it's especially important for newer investors to hear that so with that, said, Justin, uh, it's great to have you back. How you doing? I'm doing terrific. Thanks, let's get right to it. Let's talk about Florida.

Justin: I'm doing great, Bob. Thank you, how are you?

Bob: And why don't we start where we usually do? And that's in the lovely town of Vero Beach.

Justin: Sure, so Vero is, uh, doing Well. It's emerging quite strongly from the pandemic. All our properties that are on the coast or Vero is 20 min from the ocean, but still a coastal community. And Vero, Melbourne and Ocala, which is Central Florida. But all those are destinations and they're bouncing back strong Vero's on track to do oh about to 225,000 this month. About half that will come to the bottom line and we're also doing some improvements that will continue to increase Our appeal, the properties never look better as I said last time, we have a really good GM, and she's a strong project manager as well. She's really on top of the physical aspects of our property as well as the performance. We reset Vero. We went to like number 28 out of 28 when we did some of the trip advisors to sort of disassociate ourselves from previous ownership and our early ownership and we didn't know that we were still attached to the previous ownership. So now, we've already bounced up from 28 to 15. We're going head right up into the top five very soon and we are renovating on the outside. We're doing some really cool things. So, Bob, you'll be interested to know that in the pool area there's two old shuffle board courts from like the 1960's. We're converting one of those into a bocce court. Bob Irish is one of the best free range Bocce players in South Florida, a true talent and then, and then we'll also have a corn hole track beside that. But more importantly, behind us, we've had this pond, that's kind of fenced. It's a water retention pond, so we've removed the fence. We're trimming it down and my GM is now charging Lakeview rates. Getting a little extra for the rooms. They're overlooking a pond rather than an overgrown weeded fenced in, you know? Uh, retention pond. And adjacent to our property there's 2.1 acres I bought with another investor. I offered my Vero investors. So some of us bought there. We bought the 2.1 acres and were clearing that whole thing out and my plan There was to convert it to like a wedding venue. Type place like a plant nursery up front and in back where you can have barbecues or whatever else you can have weddings under a tent and it will connect with the ponds, so it becomes like a three acre site, and it's really, it's really quite exciting. So we're in the process of doing that, and it'll be a natural for Vero. Because if you're having a wedding there, you know, why not stay at Vero right, next door we have. We have a major full-sized kitchen in bureau where you could cook and bring over the food to serve there. So really, we are very excited about what we're doing right now. Our teams doing tremendous stuff at Vero.

Bob: Wow, that's really cool When you said you had that extra land, I thought you were going to tell me you were going to put in a petting zoo, but? I think the wedding venue is a much better idea, much better idea.

Justin: I worked at a petting zoo when I was in my early 20's. So, I'll have to think about that. Maybe I don't think.

Bob: Well, that's why you're the boss, and I'm just here for the ride. Hey, let's move up the coast to Melbourne.

Justin: So, Melbourne is doing very, very well. Again, it's growing and coming very strongly out of Covid. I think it's ranked in the top three still, on trip advisor, three or four. And one of the real nice things about Melbourne now is we've had a restaurant tenant there for over a year.

Bob: The sushi guy, right.

Justin: Yeah, one two, three sushi. And when I love about one to three sushi, Is we get one two three rent checks every month and another. Another got to worry about staffing or hiring or cook or food, waste or theft or none of that. I am no longer a part time restaurateur and you should never be a part time Restaurateur. Or, the only way to be a restaurateur, is you go you know, fully in it and you're hands on. But so, he's doing well there, which we're very, very excited about. The rooms are doing well as well. We continue to do some improvements. We just got our final new shipment new furniture. And I tell you, Bob. We have all this older furniture. They recently put in there and it's in good shape, but it's just not updated. It's sitting outside on the side of our hotel. We can't give it away. No one has labor to come and pick it up. We are next door to a Goodwill place like behind us off the street and we offer it to them. They can't, they don't have people to come take this free furniture and put in their Goodwill and get rid of it and, of course, and then waiting for our new furniture, we're waiting months for the new furniture. You know, much more than months longer than we normally would. But that's finally arrived so.

Bob: OH, my!

Justin: Little by little we're emerging from this covid constraints and, uh, were doing well so everything. We like very much what's going on in Melbourne.

Bob: Oh, that's terrific, uh, that your story about the furniture reminds me of the. Uh, story about the guy who owned the gas station who had some used tires. He wanted to get rid of them and he put him out in front of his station and he had a sign that said free and they sat there for a week and he finally put up a sign that said tires \$25 each and they were stolen within the day.

Justin: I'm so embarrassed and I'm so impressed. I didn't think of all that.

Bob: Okay, so, you know, think about putting price tags on it and.... You know just a thought. Uh, let's let's move up to, um, Tallahassee. Let's talk about Baymont first. I know that you had we have plans to convert Baymont into apartments. Is that still on track? Or where are we with that?

Justin: Yes, it is so, um. It's an interesting, um Challenge because, um, when you convert to apartments now, we realize we'll have to do sprinkler systems, that was not in our in our budget and, um, and that could be an extra half million dollars. We're working through that. It could be if we're if we're fortunate, maybe 300 but as much as 500,000 to a budget that was originally 1.2-1.5 and then there's issues of parking and so forth now again. The mayor of Tallahassee likes us. When we opened seven hills, he came, spoke to me, personally thanked me and all that kind of stuff, gave me his cards and then Covid hit, so I haven't been in touch, but I think if I reached out to him, he might try to smooth the way for us.

Bob: Right.

Justin: But that may or may not be necessary. We have an excellent expediter who can help us figure things out, But as I looked at all this, I thought, and we were also going to convert our PTACS to mini splits. I love the mini splits, Bob. They're quiet, they're elegant. They don't take up as much room. They have much higher energy efficiency ratings. But Bob, I was recently shocked when we did this study at Equus. We looked at our utility bills before and after mini splits and we did not see a reduction in the consumption of kilowatt hours and, um, and you're looking at kilowatt hours, not dollars because a kilowatt hour varies so.

Bob: Right. Well, how do you explain that?

Justin Ford: Well, you know, these are so we went from about 13 seer to 18 seer. 18 seer is not very high yet. It's supposed to have a software control also. Where I would have preferred to do 22 seer. But we got special green energy financing and like everything associated with the government, they made us to do something stupid, I think. So they made us just do 18 but with a software control that software control is not fully installed yet so maybe when that thing is finally installed uh, We had some issues with that, then we're going to see the savings. But even when we looked at Seven hills where we did 22 seer, we haven't seen the kilowatt hour savings. We don't have a long history of consumption before them because the previous owners did operate a full hotel. So it's kind of a mystery to me. I still love the mini splits, but I saw the payback. I saw it personally when I did it on little properties. You were part of those years ago. I saw my energy bills drop in half.

Bob: Yeah.

Justin Ford: In Pompano on, But I haven't seen it here yet. So we're scratching our head. What does it have to do with Baymont? I may not put in mini splits. Were kind of rethinking things right now. I might not even put in the kitchen. I might want to put in what is called a wet bar. Wet bar looks like a kitchen. It's got cabinet. It's got a sink and there's a microwave. Um, and we may put in actually a battery powered hot plate, so it's kind of like a little.... Let's call it a

pie'd a terre like in a formal apartment. We could cook something, but you're mostly out and about, and so it'll have the look and feel of a small apartment, but it'll be much less of expensive conversion. We won't have a washer and dryer in there and we won't have a stove or hardwired range, which would require updating the panels and putting in the sprinklers all the stuff by doing this other type of conversion.

Bob: Okay.

Justin: It'll be an inferior apartment than the full conversion, but I think it will still have very strong market power. We could do it fairly quickly. Instead of spending now 1.8 we might spend 600 to 800,000. We'd get it done faster. We wouldn't have to rezone anything. So I'm not saying where to go that way, but when I when I ran into these issues, I started to rethink it this way and tomorrow we're meeting with someone converting apartments. And I just met with someone else so we're in the process, still figuring that out. But in the meantime, Bob, we have picked up our sales efforts at Baymont. It is still the ugly duckling of the group, it's it, you know, it's in good condition. Physically we've really overhauled that new furniture and all that stuff, but financially, it's growing. It's not where it needs to be, but it's making tremendous progress. We should be break even or very close to it this coming month, which is a nice change to Baymont.

Bob: Okay, okay, well, you'll update us on that next month as well. Let's talk a little bit about the Renaissance, which I can't believe you got that big offer but decided not to sell. So let's talk about Renaissance.

Justin: Yes, right, so we got 25.2M offer. We're in it for around 15. We decided, you know all the investors I spoke to want to cash flow as well so we're doing a loan. We just signed it. We scheduled to close on March 18. It will be at 4 % under 30 year amortization schedule. We switch from HUD to Fanny Because HUD was taking too long and rates are going up, so we locked in four percentage. It's not as not as good as we would have liked, but still, investors are going to see double digit cash on cash returns. Which they're showing actually now, but we're going to return about 40 % of their initial capital in less than a month.

Bob : Okay.

Justin Ford: Yep, and, uh, and then there'll be cash flowing in the low. I'd say the low double digits. You know, 12% to 14 % consistently after that, and then because this is a fanny loan, we can do a supplemental in about two years and our goal then is to return most of the rest of the capital, if not all the most of the capital at that point. So Renaissance is at 98 percentage occupancy with rent steadily growing.

Bob: Okay, okay.

Bob: Good, good deal. Let's talk about the, uh, the Crown Jewel, Seven Hills

Justin:

Seven hills is, uh, also coming back out of covid. That's an impaired market as far as Covid goes, but it's doing well, it's growing. It's coming out of its doldrums. We are also doing a very aggressive marketing campaign. We have 160 rooms there. 40 of them are configured as sort of optional two room suites. So on the one side, you have that wet bars we were talking about, which is like many with a really cool Murphy bed and then on the other side, you have two beds and you have, um, you have either a king bed or you have two queens ,one or the other, and so those 40 were marketing as apartments right now. So in seven hills, those 42 room suites. We we've hired a company called class. They've helped us before, so we're going to market those like apartments, even while we operate the other 120 like a hotel, so it continues to grow. It's a highly rated hotel again in the top five. I think four around there. It's an award winner two years in a row and we're growing the sales. It's just a slow market, but we are doing a lot of things.

Bob: Oh, we were talking about seven hills, yeah?

Justin: To come out of that slow market and we're making progress every month again, this Baymont will be slightly positive in the coming month, and we think by the month after that we could be, uh. In a very strong position. As we execute this leasing program.

Bob: Very interesting, very interesting. Let's go to Ocala and talk A little bit about Equus.

Justin: So, Equus! My favorite hotel physically is, uh, is Seven Hills because it's beautiful the land all that I've said it many times and, uh, but I do love Equus too and Equus has taken the role, actually, Stolen the role as the star performer. Equus is doing amazingly well, it won TripAdvisor's top award coming out of the gate In the summer. It just rose to number one in the market. Just hit number one now, so we are now the top-rated hotel in the market.

Bob:

Very nice.

Justin Ford: Thank you and those awards and that recognition is turning into financial accomplishment as well. Melbourne is on track this month to post \$325,000 somewhere around there in sales, about half that will be brought to the bottom line. That's by far the best month it's had ever.

Bob: Congratulations.

Justin: And it's, uh, it's really doing very, very well. So, Equus is very much where I think Seven hills will be. Perhaps in five to six, seven months as we come out of covid but Equus is meeting our expectations and we're very happy about that.

Bob: Were you, you said \$300000 For Melbourne

Justin: Top line in Equus. Yeah, yeah, and it.

Bob: Uh, that was Equus, right, okay, fine, you said Melbourne. But I just wanted to be clear. That's okay, that's all right.

Justin: Yeah, I always do that. I just got confused. Coming in at 325 This month is where the forecast is and I believe Seven Hills will be like Equus. When Seven Hills emerges out of a slower performing market in the moment.

Bob: Right, well, we've covered Florida. I want to talk a little bit now about the CAP plus diversified income fund. I know that we've got some underlying investments there in Tulsa. Do you want to talk about them individually or just give us a bird's eye?

Justin: Uh, real quick. Apex we renovated around 60 of the units now, delivered about 45 of them to the management and they're getting the leases that we had underwritten and they're getting more. Uh, that's going very well. We're going finish within the 1st year. Elevate we're going to get our start again. We were delayed.

Bob: Uh huh.

Justin: We were tagged for a moment, but we've had that resolved. We believe we get our green light if not this week next week. And again, that's ready to go. We have 25 rooms in process and everything we learned at Apex, we're going to execute there. A lot of the crew will move over, so we think we'll still conclude that renovation within a year and again the rents we have people on the waiting list for what we're doing there at the property. The Port St. John Shopping Plaza is doing extremely well. Win Dixie, which is the anchor and the supermarket, recently informed us that they're going to be doing one of those upgrades. You know all these supermarkets, Bob? You're familiar with all the upgrades that they make these supermarkets feel more like a sort of like a community market. There's the sushi bar, the coffee bar that and Win Dixie, you know, was kind of like the lesser step of a lot of the supermarket share, but they have gone through this upgraded program in a lot of their supermarkets and it's had good effect. This particular Supermarket was successful already. Selling \$400 a square foot when they pay us only \$5.50 in base rent per square foot, which is very good for us, so they're, um, they're doing extremely well, and they're just about to upgrade, so we really like how Port Saint John is performing.

Bob: Super well! What other irons do you have in the fire right now? Are you looking for some other investments for the cap plus fund?

Justin: Funny you should ask Bob. Well, we just we just signed an LOI for a, um, 146 units also in the Midwest. It's in an A suburb of Oklahoma City. It's in a B city, A suburb. It's a C class property, which we will change into a B to B+ property. This will be, we think a lighter turn than apex and elevante. We'll spend around. \$10,000 to \$15,000 a unit, but it, we won't have to go behind the walls. The electric's fine. We don't have to upgrade any electric panels, you know, at apex we're installing 40 new meters to separately meter. Some apartments where we're redoing some of the panels because they were non-conforming, their grandfather not conforming. None of that we will have to do here. We are going to have to do some AC work. This has what's

called the chiller system, which went out of service. And now that you have window ac. So we're going to be doing new AC work, but it lends itself for that. We'll do a split system with an interior handler exterior condenser. And their flat roofs and their new roofs that were very familiar with TPO roofs. We've done a lot of them, so we think that this thing is right up our alley, and we expect to have a signed contract. I just sent back revisions on the purchase and sale agreement half hour before this phone call. We hope to be a contract very soon, and when we are a fully renovated unit in this really top-notch suburb, you know, will be less than a hundred dollars a square foot again. We'll have we'll have a best-in-class property for far less than replacement costs to me. That's an important economic moat to have...and our cash yield. Once we're levered, we're going to put on competitive financing from the acquisition. Will be well, over 7 % somewhere in the 7 ½ to 9 % range. Within as soon as were stabilized, which will happen within one-year time.

Bob: Very good. Well, those yields certainly are attractive. Given where our Interest rates are these days and. Tell me I'm wrong here. The cap plus diversified income fund is open for business if people want to invest in it, they can do so correct.

Justin: That that's correct, Bob. So we are, um, were, uh, we're going reprice at the end of March, maybe early April. We have a lot of folks reinvesting again, and besides the you know at this fund, the property, I just talked about these 146 units. Those will become the 4th property in the fund.

Bob: okay

Justin: Today and tomorrow I'm at a conference in Los Angeles on Student Housing. It's a group that I've, um, spoken for a lot on apartments and other things and, um, and over there, I'll be talking to other people about more opportunities, so we think that if you know where to look and you have the sort of fundamental approach that we have, there are still opportunities out there to lock in pretty good interest rates to buy to renovate well below replacement costs in markets with long term and short term population and job growth and for us that that's a, uh, that's a recipe for, you know, consistent income and providing good services. On terms that make fundamental sense.

Bob: And you've done nothing but produce superior long-term results. Justin, listen, anything else you'd like to add before we sign off?

Justin: Well, yeah, if you go to Big Bear Lake in California, don't bring a Mustang As your rental car. You won't be able to get down the hill when the 20-inch snow blizzard hits, which is what happened to me, which is why I'm talking to you from my hotel room, so I just got change, put on the back tires of those and once we're done and we'll rejoin driving down to Dana Point, but that's one takeaway.

Bob: Oh, my!

Bob: That the tips from the top. Justin, thank you so much for that, right, We'll, listen, I will look forward to talking with you next month, Justin.

Justin: Great to talk to you. I will, I will, thank you bye.

Bob: Be careful driving down that mountain, okay so.