September 2020 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 Justin has been a very 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. I say it every month, but you need to know that Justin is conservative, very 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. With that said, Justin, it's great to have you back. How are you doing?

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

Bob: I'm doing great. I've managed to avoid COVID-19, so I'm doing better than some people in the country. That's for sure.

Justin: Absolutely. No small victory there. Stay healthy, Bob.

Bob: Yeah. You too, Justin. So let's go right to our updates on the properties. I know this is our fourth or fifth call since COVID-19 precautions kicked in. Why don't we start with Melbourne?

Justin: Melbourne continues to do extremely well. It pays its operational expenses. It pays its debt service. It's remarkable. It outperforms its peers too. Melbourne itself has a strong market, but we do typically 20%–35% better than our peers in revenue per available room. We created a superior product with a lot of two-room suites, and so forth. And I told you last month that our newest hotel we opened won the TripAdvisor Travelers' Choice Award – the Seven Hills Suites in Tallahassee.

Bob: Right.

Justin: Well, a few days after that, Melbourne won the same award. It won it for the fourth year in a row, Bob.

Bob: Wow. That's fantastic.

Justin: Thank you. Every single year we've been open, we've won that award. And remember this is the old "Chateau ghetto." This was the most visited place by police in Melbourne. Now every single year, it's rated top 10% of hotels worldwide as far as customer satisfaction goes. We're very proud of that. So Melbourne is going well.

I'm going to add Vero for a second, even though Vero's not part of this call generally. Vero was the first big hotel before we started making them available to listeners on these calls. But even now, Vero is paying for itself and its debt service. And Vero is scheduled to actually make more money this August than it did last August. So it's remarkable for our portfolio.

Bob: Yeah, absolutely. And I'm sure you're also able to utilize some of the same strategies that you've been able to deploy in Vero and Melbourne in some of the other properties. Speaking of which, what's going on with the Baymont?

Justin: So the Baymont is the weak link of the chain right now, I've got to tell you. It's losing a little bit of money, but nothing we can't manage. We're keeping expenses tight. But that's one property that has just consistently been right at the index or with its comp set (comparative set). Sometimes it's been a little bit below it. And we have figured out a lot of the reasons why. We had the wrong general manager, but we replaced them quite a while ago. We had a sales manager who wasn't right, et cetera.

We have renovated everything and have new furniture. It's the best hotel, physically, in its category on that side of town. So that is the one area where we are working really hard to improve.

It's posting losses, but again, they're manageable. We can hold on to them through COVID-19. And we do have a very strong game plan in action focused around LNRs – local negotiated rates – of local companies like landscaping companies, construction companies, utility companies, etc., and around group sales – even though groups have been almost nonexistent throughout COVID-19. But LNRs are out there.

You still have companies coming back. You still have companies that are at work, and you do have groups that are starting to come back, such as the occasional sports team. So we have a plan in place where we're fixing it. It is the ugly duckling of the group right now, but it will be a beautiful swan again one day soon.

Bob: Okay. Let's talk about Governor's Square. Last month, we talked about the magic number in terms of occupancy and a possible refi. What's going on at Governor's Square?

Justin: Well, we're doing beautifully. I'm really pleased to say we're at 95% occupancy, so we're fully leased up as far as that goes.

Bob: Wow.

Justin: We'll probably be at 96% or 97% soon. That's really where we want to stay. We're keeping about five of those apartments available just for Airbnb rentals. We run our Airbnbs so that our revenue is about one and a half times what we would normally achieve if we rented them annually. They give us a nice little boost, and in the right type of season – if we had a normal football season – we could make some additional funds on the busy weekends because of a football game. For a two-bedroom apartment we could get $500 or $600 a night. Whereas, for a year, that might rent $1,100 a month. But in any case, we're doing that. We're on track now.

I just got off a P&L (profit & loss) call for the apartments. And we think that in September, we'll do about $175,000 worth of revenue. You multiply that by 12, that's around $2.1 million on an annualized basis in revenue, which would be really strong. And we think we're going to hit there.

Again, people love the product. It's in a good location, and we have good management in place. We think we're going to be in a position to pull off that refi, to take advantage of some fairly low rates out there, but it's going to be a supplemental combined with our current rate of 4.38%. Remember, Bob, when we used to think 4.38% was a low interest rate?

Bob: Yes, I do remember those days.

Justin: Well, on new apartment complexes, they're lending at 3% now, and locking it in for 30 years. It's insane. In fact, in some instances you can even get around 2.7% interest – if you get a green loan. It is absolutely insane. But we're going to get some of that low 3% money, combined with our four and three-eighths money, and we'll end up with a blended rate in the high 3% range, close to three and seven-eighths – still very good funds.

And we're going to return a lot of investor capital when that happens… And also catch up on all deferred prefer return in those apartments. So we expect that to happen by the end of the year. And we're very excited with what's going on right now at those apartments.

Bob: That's great. How's Seven Hills coming along? I know it's an award-winning hotel – it's the crown jewel in your company. How's it doing?

Justin: It's doing well. We negotiated that rate with them for three-quarters of the hotel. We rent three of the four residential buildings out to a homeless shelter. So that's a blessing for us, but it's a double-edged sword.

On the one end… It's not the sort of chaos that you would expect. We pre-negotiated going in every type of standard: behavior, curfews, the security guard they provide, all that kind of stuff. So, by and large, that community of homeless folks who are there are very appreciative. They don't have to stand outside in front of open doors smoking cigarettes. There's a place in the back of the property where they can do that.

So it's not ideal, but it's for COVID-19, because that particular part of the market really got hit hard in Tallahassee. The universities shutdown, the government's basically not operating like it used to. It was really, really hit hard, so that market overall is weak, and because of that, we negotiated that. We're actually, again, paying all our operating expenses and paying our debt service. So I'm really proud that we're pulling through in that way.

Our latest focus is to get more groups like that outside of homeless shelters, where we can start to replace parts of the hotel during the COVID-19 pandemic with other groups at very competitive, low daily rates, but at such a wide scale that we're going to be continuing to cover our nut. For now, we have no problem paying our bills and our debt service month in and month out. So we're very, very happy.

Bob: Hey, that's great news. So I suspect you're coming down the home stretch in Ocala.

Justin: Yeah, we are. One thing that's held us up a little bit is that a lot of the materials we've had on order were all backed up due to COVID-19. I'm not sure why. It's hard to figure out. Every industry is different, but a lot of the suppliers' delivery times have increased. We're waiting a bit for the AC units. We're waiting a bit for some of the door locks, for some of the furniture, and those kinds of things.

We were hoping to be finished with the interior of the building at the end of September, but it's probably going to be mid-October. And our goal is to be completely out of there by the end of October, now early November. We're starting to lease up. We just moved up for the first time on TripAdvisor, I think, since we owned the property. We're now number 12 out of 39 in the market, even though we're still under construction. And I fully expect Ocala to be another Travelers' Choice Award winner within the next year.

Bob: That's great news. Well, thanks for that recap, Justin. I want to talk a little bit about something that we mentioned in last month's call, and that's this whole business of triple-net leases. And I know that you were, and probably still are, in your due diligence process. I'm just wondering if you've been able to hone in on any specific targets.

Justin: Yeah. So the world is changing so rapidly, and it's hard to look into the future and get a clear picture. We started to develop some strong ideas, but it's been a real, real challenge. I've had myself and three other guys working very diligently at research the last few months.

In the triple-net market, there are many different places you can go – supermarkets, pharmacies, tire stores, drive-through restaurants, and so on. So you want to figure out which segment makes the most sense. And to give you an idea of how rapidly things can change, Bob, you and I both have an associate who was about to build a 36,000-square-foot, class-A office space in downtown Delray Beach, Florida. The company he's associated with was going to fill it with all of their employees. You remember that project, don't you?

Bob: Absolutely. I sure do.

Justin: That project was viable until March 12. And all of a sudden, Bob, it's dead. Dead in the water. They wouldn't even think about it today. Not even a 1 in 10 chance, they would do that, right?

Bob: Wow. Yeah.

Justin: Because half of those people who were going to go fill that office are going to be pretty good just staying and working at home. So the world is changing in dramatic ways, and we really have to try to do the best we can to try to reason through things and see what's durable, what's robust, what Nassim Taleb calls "antifragile."

This idea of antifragile is, in certain circumstances, a threat makes some things actually stronger, and more robust. And this was my thesis about supermarkets – that they're going to be a natural distribution point [for supplies because of their many locations].

And location is the thing about well-located pharmacies: If the real estate location is right, those "boxes" can be repurposed in many different ways. I've seen those types of boxes be repurposed into a Chipotle, an Orangetheory, and a Starbucks with a drive-through. And it's the type of real estate that's in a wealthy neighborhood with a lot of vehicles driving by.

So we continue to look at those. We're looking at those two segments, but only very special circumstances. [That includes things like] square footage, where there's household income in the area, and other factors that we think are sort of perennial businesses, ranging from paint stores, to tire stores, to a Dunkin Donuts, and businesses like that. So we're starting to [look into opportunities like that.]

Today, I had a discussion with some people from Stan Johnson Company. These guys are leading brokers in the triple-net space. We were on the phone for 75 minutes. We were getting into interesting explorations of certain types of possibilities and strategies. And typically I take everything a broker says with a grain of salt, but these guys are different. These guys are sharp. They know what they're doing. They've been doing it for a very long time.

And the short answer to your question is we are looking hard at all those areas I just mentioned. After our call last month, we had a great deal of interest from a lot of the listeners. So it's quite possible we may have something start to materialize by this time next month, when we have our next call. We shall keep you posted.

Bob: Well, that's great. We'll look forward to that call. In the meantime, Justin, I know we had a great response to last month's call. And if people are interested – if anyone who wasn't on the call last month, for example – and would like to be on the list for participating in one of these triple-net leases that you have targeted, what should they do?

Justin: Yes. Please send an email. Send it to justin@paxproperties.com with the subject line, "triple-net investment offerings." Just put something to that effect. We'll be able to catch it. And we'll acknowledge your email, and we'll put you on the list. The moment we have something actionable, we'll let you know.

Bob: Well, that sounds great. We'll provide a link on the transcript of this call. And so you can click on that and send Justin your indication of interest if that is something that interests you. Justin, anything else before we sign off?

Justin: Nothing, Bob. Just, as always, a great pleasure to talk to you.

Bob: Always great talking to you, Justin. And we'll see you again next month.

Justin: Thank you very much, Bob.

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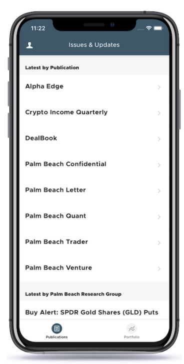

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