July 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. Throughout real estate booms and busts, Pax Properties has never failed to produce a positive result for investors or missed a mortgage payment.

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

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

Bob: I'm doing terrific, thanks. I'm looking forward to getting the updates on all our Florida properties.

I'm also excited because I know on your website – paxproperties.com – those investors who want a little bit more detail than we're able to discuss here on this call are able to log in and actually see all the quarterly reports for those properties, is that right?

Justin: Absolutely, Bob.

We've been producing quarterly reports for over 10 years now. And we never miss a quarterly report with anyone, every single quarter. If it's for stabilized properties, it's brief; if it's a new property, we'll often tell the whole tale of the stabilization and renovation, and we also always produce financials.

And when we do our quarterly reports, we do something very distinctive. We produce the profit and loss (P&L), the balance sheet and the cash flow statements, which are common… But we also post a general ledger. I don't think anyone reads the general ledger, except maybe one in a hundred investors, but we're interested in being that transparent, always.

The report is usually anywhere from one and a half to seven or eight pages, depending on what's going on in that property, how recently we've acquired it, etc.

We're putting all those on the website. The second quarterly report's there… The next one's coming up in the next week or so. And there's other information there as well.

Bob: Well, that's great. That's a *wonderful* feature to have.

Let's talk a little bit about the Florida properties. Why don't we start off as we customarily do, with Melbourne, the former "Chateau Ghetto"?

Justin: Exactly. So [the] Melbourne [property] is the "Chateau Ghetto" that went on to win the TripAdvisor's top award every year it's been in business – five years in a row now.

And Melbourne has always been our favorite child, because even through COVID-19, it was profitable… Not only profitable… It covered its debt service every single month during COVID-19.

We actually suspended payments during COVID-19 – this one-in-a-century type event – for three quarters. But by the fourth quarter, we were back in. We're paying almost 8.5–10% cash on cash. So it's come roaring back.

But one of the reasons I always say Melbourne has done so well is because we have such an extraordinary value proposition there.

We took these 235 old, beat-up rooms and turned them into 140 suites, 100 two-room suites, and 40 junior suites. So it's very nicely appointed for its category. We're doing more improvements to it.

But what I realized recently – and this is something I've run into now time and again – is revenue can cover a multitude of sins.

So when I visited there recently, I was disappointed. Our general manager was a nice young woman who had risen from the desk to assistant general manager (GM), to GM, while we grew and other people moved into other hotels.

She had been doing a pretty good job on the P&L, delivering good top and bottom-line numbers for the most part, and her expense ratios were tight… It all looked good.

But [over the past month], she had been slipping. We had always beaten our comp set by anywhere from 10–20%. Our comp set are a bunch of hotels like us in the area… Some a little better – like a Hampton Inn that's more known, with bigger brand exposure… Others, lesser quality, like a Motel 6 – but all in our area. These are our competitive set.

We look at: What is their average daily rate? What's their occupancy? What's their revenue per available room? Revenue per available room (RevPAR) is the key metric. That's your checkmate. Occupancy times your average daily rate equals your RevPAR. And you're always moving up the two levers of occupancy and rate, up and down – one up, the other down – to try to reach the perfect RevPAR.

We've always beaten our comp set by 10–15%… Sometimes 30%.

All of a sudden, we were beating it by a couple percent, we were coming under by 5%, and then 10%… And this was unusual. We'd talk to her about it and have our reviews and discuss things.

When we first renovated the property, we were the last in the [TripAdvisor] category… We went to number one… And we held onto number two for a very long time… And for a while, it fell to number three. Well, about a month ago, we fell to number six. We went from four to five to six.

Long story short, a marketing guy who stayed [at the property] and was working for us had mentioned some things about it. So that very day, we were in Vero Beach at another hotel we have – which is about 40 minutes south. I drove up with him, and with my director of operations. We walked the property and so many things were disappointing.

It's still a good property overall, but the market was down. Since COVID-19, they hadn't reopened the market. It was dark and there were jugs of water in there… It just didn't look professional. The gym was closed, there was tape on the door, and there was some torn furniture by the pool.

It's still a good property, but it had enough shabbiness around it that you'd be quite disappointed. I was quite disappointed.

When we combined that with the recent fall on our TripAdvisor, with the fall in our RevPAR… And we dug a bit deeper since then.

That young woman who had been doing well… We fired her that very next day. We'd worked with her for a while, and she's a good enough person, but she had more excuses than she had action plans.

We put a new GM in there – a GM who's been with us and who's a star [at the Vero property] as sales manager. She did a great job in Vero. And now we have another person behind her who's another star project manager who had taken over Vero.

This woman had asked us previously, "If Melbourne ever becomes available, I wouldn't mind doing it, because it's a little closer to my home, and I think there's so much potential there." Again, Melbourne's always been performing great.

So she stepped in – she's been there now barely three weeks – and we've gone from six on TripAdvisor back to number three.

We're going to book a quarter million dollars in revenue in July, in Florida. And all the things that were neglected are being taken care of.

And that's a challenge of growth… When you're growing, you're doing projects, you're visiting your old projects and so forth, you're reviewing your P&Ls.

We usually are boots on the ground, but this one had fallen apart a little bit on us. Fortunately, we intervened quickly, we're still performing well, and producing more than enough profits to pay healthy returns. But we just saw a trend there that was unacceptable.

And now, I think Melbourne's going to have its best year ever. I think it's going to explode. It's always done *very* well. I think it's going to reach unimaginable heights.

It's a great property… It's getting the attention it needs, once again… We're reinvesting in all the furniture that needs to be replaced… And it's got one of our superstar managers on it.

Also, we're finally talking about refinancing it, because financing on independent hotels was basically frozen during COVID-19. And now, we've got people coming and talking to us about financing as well.

So all in all, we had an interesting month when I discovered there was a reason behind the recent lag that had to do with replacing the leadership. And when we did that, it's just been extraordinary. And I'm *very* excited about Melbourne once again.

Bob: Well, that's great. I'm glad you and your team discovered this before things had gone any further south.

Justin: Right.

Bob: That's great. Let's talk a little bit about the Baymont, because I know the Baymont has been the problem child through COVID-19. What's going on there?

Justin: Baymont's picking up. We're doing about $156,000–160,000 this month in revenue, which isn't bad.

And we've found a new manager there. We make that move early this week. The guy who was there was a nice guy, but he wasn't a guy that takes the bull by the horns.

We realized – especially for us – you need initiative for leaders. You need people who don't just wait to be told what to do… But are figuring out what to do as well… People who are proactive, not just reactive.

Again, the [former GM] is a very nice guy. He did many things right… But he couldn't move the top line. And he couldn't move the TripAdvisor reviews.

That's our one property that's not in the top 20% of its comp set. It's been stuck there for a while. Even though it's a good property, and it's well maintained, and it's *very* good in its comp set.

So we have a new manager going in there. And I believe that property will be back on track to produce $2.3 million in revenue in 2022. And I'd say an EBITDA (earnings before interest, taxes, depreciation, and amortization) of around over $500,000 – based on a total investment of about five and a half million dollars on that property, with the leverage we have on it, and responsible use of debt.

Again, we're going to be comfortably in the 10% cash on cash returns, with a really good, well-maintained property, but now managed by a person who takes responsibility for the results, and not someone who tries to explain the results away when they're not hitting the mark.

So actually, it's doing well. And that market's coming back nicely as well.

Bob: Okay, let's move across the street and talk about the Governor's Square property. I know there were some exciting things going on there, in terms of financing.

Justin: Yes, we're refinancing Governor's Square. We're doing a two-step refinance – a bridge loan followed by a HUD loan.

We invested $15 million in the property. We bought it for around $9 million and we put about $6 million in. And we just got appraised between $21.3–21.8 million – that's a third-party bank appraisal.

Bob: Wow.

Justin: So we've created, according to them, $6.5 million dollars in value.

But the truth is, bank appraisals are way under the market right now. We could sell it for much more than $21.3 million.

In fact, we had a call today from the broker who sold it to us, and he thinks he can – I don't even want to mention it, because I don't want to tempt people with a high number and then doesn't happen – [sell it for] substantially more than that, and I know that for a fact.

We've had unsolicited offers at higher than $21.8 million. So we know there's substantial equity there.

But we'd love to own it forever… It's an asset that has almost zero deferred maintenance… Basically zero deferred maintenance, for the most part. [It has] all new roofs, electric, plumbing, new windows, beautiful interior finishes, and great public amenities.

It's a wonderful property. We're happy to own it for 30 or 40 years.

But we're getting such inquiries that we may just be faced with an offer we can't refuse… With so much additional equity offered to us that we're going to have to scratch our head a couple of times.

At that number, we may decide to take it… Because we're finding real interesting opportunities elsewhere that we could redeploy that equity in a very powerful way.

I don't think that's going to happen. I think we're just going to do this $13 million bridge refi, which pays off all the private debt, gets all investors caught up on preferred returns amounting to almost 10%, lowers our cost of capital, and then positions us later in December for an $18 million HUD. And that interest rate – if we were to close today – would be around 2.9%, and we'd lock that in for 35 years. So the cash flow would be geyser-like.

And that's probably the way we're going to go. We're happy to go that way.

But again, if someone comes and offers you *way* more than you were expecting, and you have an opportunity to redeploy that capital, that's the important part.

Bob: Well, we'll be very interested in keeping an eye on that, that's for sure. Let's talk a little bit about Seven Hills.

Justin: At Seven Hills, we've done another management change there. And it's an amazing, great management team.

We had a new manager… She was wonderful in many ways, but she gave us her notice after a month and half or two. So we got this new guy and he has a lot of experience… He's a very sweet, nice guy.

First of all, our sales manager down in our hotel in Vero Beach was talking to someone and told [them about the property in] Tallahassee. She sells [the Seven Hills property] a *$160,000 piece of business*. So as a company, we're cross selling.

And then this [new Seven Hills GM] has been in his seat around three days and he's got the whole Tallahassee Tourist Board coming to our property.

I've met the mayor of Tallahassee. He's been very generous with us. He came over and loves our property… Wants to invest there. [The new GM] is setting up meetings with the mayor. We're going to meet the mayor and other folks who want us to redevelop because there are all these opportunities up there.

He has the Boys & Girls Club coming out there, striking a deal. And I think they just struck a deal for next month – 120 rooms with the Army National Guard on a Friday and Saturday, at $99 a night.

We're roaring back out of the gate, post-COVID-19.

During COVID-19, we'd leased out to [a local charity] organization, which was great to help us. Now, we're getting the buildings back into shape and we'll have all that done within the next 15 days [or so].

So we now have – in all our properties – not only good properties, but a very strong management team. We've always had good managers, but now and then, we've had one or two that struggles.

Right now, we look like the '78 Yankees, or maybe the '76 Steelers. I know I'm dating myself, but we've got stars right across the line up.

And Seven Hills is really roaring out of the gate. I expect Seven Hills in 2022 to post revenue north of $3 million, and EBITDA close to $1 million on about $10 million invested.

Bob: That's great news. It sounds like you've got a real Bart Starr in there as your quarterback.

Justin: Well, you're even going back farther than I am, Bob.

Bob: I just did that for fun. Let's talk about Ocala and about Equus.

Justin: Did we talk about our grand opening on our last call? I don't know if we did. I'll repeat myself then.

We had the grand opening in mid-June. The mayor was there, we cut the rope, and it was a *fantastic* grand opening. I got some video clips we'll be posting on the website.

Our sales there are really coming along strong. I think this month, we're going to be north of $170,000. The whole community knows us. Just as we were finishing the grand opening, we won TripAdvisor's top award our first few days of being fully renovated.

We have an amazing sales manager out there. When I was cutting the ribbon with the mayor, I said, "Well, this is the mayor of Ocala, but we all know that Kelly, our sales manager, is the real mayor of Ocala." And he laughed at that because Kelly *knows everybody*. And they love her. She's at all the events. She goes to all the cocktail hours and rubs elbows with everyone… So everyone out there knows us.

And Ocala is a booming town. It's got the new World Equestrian Center and it's where guys from the Middle East fly their Arabian horses in. So the sheiks stay at the World Equestrian Center, and the guys who tend to their horses stay with us.

We're No. 4 in the market on TripAdvisor, out of 42 hotels now. I'm pretty sure we're going to be No. 1. Forget about pretty sure… I know *we'll be No. 1*. I'll lay odds.

In 2022, think Ocala's going to be around at least a $2.6 million property… And on that, we should bring the bottom line… Over $800,000–900,000, on about $8 million invested.

So again, very strong results. We put a lot of work in it… It's a beautiful little hotel. I hope you stop by it soon like you surprised us in Tallahassee on that one trip, Bob.

Bob: Yeah, I'd like to check it out. Maybe on our trip back, we'll be able to stop in Ocala.

Well, that's great news, Justin. It sounds like things are really humming. I'm just delighted that it looks like we're coming out of COVID-19. That Delta Variant has me kind of spooked. But it just sounds like things are coming back in the hotel business.

Justin: Yeah, I agree, and it's exciting. We should live our life beyond our four walls. It's nice to get out and about and be amongst people again.

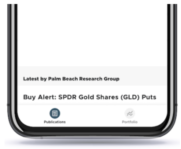
Bob: Yeah, and just a reminder to our listeners: We didn't go into great detail on all of these properties. If you'd like some more detail on this, you can go to the Pax Properties website, log in, and you'll be able to see all the quarterly reports for all the properties we just talked about.

Justin, anything else to add before we sign off?

Justin: No, that's fantastic, Bob. I appreciate it. As always, it's a great pleasure to talk to you.

Bob: Alright, Justin, we'll catch you next month. So long.

Justin: Thank you, bye.



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