Bob:
Bob Irish here with our monthly call with Justin Ford of Pax Properties. Today we're going to update you on all these standalone properties in Florida, as well as fill you in on the details of the properties that are underlying the Pax Cap Plus Diversified Income Fund. Now I say this every month, but if you're a newer investor, I think it's important for you to know that during real estate booms and busts, Pax Properties has never failed to produce a positive result for investors. So, Justin, how are you doing? It's great to see you.

Justin:
I'm doing great, Bob. Thank you. I just got back from New York where it was really freezing so I'm very happy to be back in South Florida.

Bob:
Yeah, for sure. Listen, I thought we'd switch it up a little bit, Justin, and what I'd like to do today is to do kind of a speed round on the Florida properties. You know, really just boom, quick bullet points, quick bullet points on the properties underlying the fund, and then I want talk a little bit more about the fund. Does that make sense?

Justin:
That makes sense, Bob. Sure.

Bob:
All right. Well let's start off our speed round on the Florida properties. Let's talk Melbourne first. We usually do.

Justin:
Okay, so Melbourne is doing terrifically well. It's on track for about $330,000 -$340,000 this month. And, actually, I'll just take you right through the rest of the hotel portfolio. Vero Beach, just to the south, is also the same way. And Ocala is our leader this month. Yesterday's projected sales were $362,000 for this month. March is the strongest month for our coastal properties and for Ocala. We call those destination markets. The coastal properties for obvious reasons. Melbourne is an hour from Orlando. Vero is as well. Ocala is a really growing horse community, on sort of an international level. You know, there are big shots from Saudi Arabia flying their steeds over here, and they've got folks from all over the country flying their animals here. And so those three properties are, just as I said, I think we're going to have our best year ever.

Up in Tallahassee, which is a market that's still impaired hospitality wise, we still continue to improve. We're doing better than we have since the pandemic at both those properties. We're looking hard now at possibly converting the Baymont either to extended stay, where we can do annual leases, or entirely to apartments. We need a few more pieces of information to make what we think is a well-informed decision. So we'll have that in place by the end of the month. And Seven Hills remains beautiful. It's going to come back. It's going to take a little while.

So those are our five hotels outside the fund and then the one property that's inside the fund is, I'm sorry, that's outside the fund, the one apartment community that's outside the fund is Renaissance Apartments in Tallahassee. And the big news, you know that continues to do well. We're on track for maybe $2.1-$2.2 million revenue about $1.2 and change in NOI. And this Friday, we should close on a $16.7 million refi that investors will get, they'll get 10% on their money basically, annualized, and then they'll get probably 40% of their capital back. So you know, a guy's got around, let's say a quarter million dollars in there, will probably get around a hundred thousand back this Friday. And that's going very well, and after that we expect it to cash flow extremely well. So that, Bob, is a quick overview of the properties outside of the fund.

Bob:
Okay, great, well, that's was a great speed round. Let's do the same with the properties that are inside the fund. We're talking everything's in Tulsa, is that right?

Justin:
Well, no. Tulsa, Oklahoma City, and then our newest acquisition is just outside of Oklahoma City, and another property in the fund is actually in Florida. So we have

Bob
Oh, okay!

Justin:
Right, so let's start with the Florida property. The Florida property is the Port St. John's Shopping Plaza.

Bob:
Oh right.

Justin:
That's ten acres across from the intracoastal, but not a really nice part of the intracoastal. But still it's intracoastal, in Florida, with people just flocking down here. It's not a bad area either. There's just a power plant there. But you know this, as I told you before, the thing that worries me about this investment is it's almost too good. We need to work hard to continue to really be excellent at being managers of this. We really want to surprise in the upside with what we're doing and we're working on that. But you know, we bought a 97 percent occupancy. We've got Winn-Dixie as our anchor, which is a supermarket chain and they just renewed. We've got a full ten years. We've got Planet Fitness. We've got Winn-Dixie Liquors. Strong, strong co-anchors and a bunch of other, you know, Subway, Papa Johns, etc. Then we have an out-parcel, which is a piece of land that's not developed, but it's part of what we own and a couple of franchises have offered to buy it or lease it from us. And that's very interesting. That's kind of like a boon - something we weren't expecting. And then they're developing an RV park behind our property, which is fantastic. And I think they're building some homes nearby, and these are folks that are going to be shopping at this center. So this center is doing extremely well, and I'm actually pursuing some other centers, too - a couple in Georgia of a similar type/nature. The southeast you know is undergoing strong growth, and the right type of shopping center is just, it's a pretty

compelling thesis because the way we buy, Bob, and this is true of all our properties, is we buy close to or below replacement cost. That's extremely, extremely important because if the world changes, if we go through another big change where something accelerates, a trend accelerates, so let's say it's electric vehicles accelerate that trend, right, and now you don't need as much parking and how that affects real estate, just as we saw covid accelerate online trade. If you're buying at or below replacement cost, you have a much better opportunity to convert the use of your property in a manner that's economically feasible. Even if you keep it in your same category, it's hard for others to come in and undercut you on rents whether that's an apartment center or whether that's an apartment community or whether it's a hotel or whether its retail. So Port St. John's is going beautifully. We are really excited about that. Now if we move over to Oklahoma. Those are all apartments, Bob. Just apartments in Oklahoma.

Bob:
Right.

Justin:
So we’ve got Tulsa. Ninety-one units. In May we are going to have a one year anniversary of ownership. And we are on track to to be completed with renovations by May. So, we’ve renovated. We’ve gone

Bob:
Awesome.

Justin:
Yeah, we have a new property manager, I am sorry, project manager, there, who's outstanding and our site supervisor’s a guy has been with me eight and a half years, also amazing. So that's going great. Elevate - we got that red tag pulled off, thank goodness. So we started there. We’ve got 25 units just raring ahead. We have all our plans and we are still, even though we were delayed there for a while, actually, a couple months, we are still on track to be completed at Elevate by the end of August, which would be right around the one year anniversary as well. That's 126 units fully renovated, best in class. And Bob, we have a brand new property under contract. It's 146 units.

Bob: Oh.

Justin: Yep. It's in a B area of an A suburb of Oklahoma City. It's in Moore, Oklahoma. One hundred forty-six units, stick and brick construction, 90 something percent occupancy. And we know, we've just renovated Apex. We'll be finishing, we'll be finishing Apex by the time we close this, by the way. So our same teams that are in Tulsa will smoothly move over here - the same materials vendors, the same suppliers, everything. We've got it sort of down to a system now pretty much, so it's really wonderful. We'll keep that one, depending how aggressive we want to be on our renovations. If we want to be conservative, we'll keep it at 90% and we'll do 10% of the units at a time. We'll keep it 90% occupancy. But we may have so many good crews that we may bite the bullet for a little while and go down to 80% occupancy and renovate 20% of the units at of time. So we get done, maybe three months sooner. It's almost six of one, half dozen

the other. But those are just going beautifully. And what's really, really interesting, Bob, when we're done with our underwriting, when we have really best in class apartments, again, people can go to as an example, Tallypads.net, that's our site for our apartment communities in Tallahassee. They'll see the finishes. We're basically creating something very similar in Oklahoma.

Now the rents that we need to make this a home run, Bob, they're not these crazy, crazy rents we got pushing 30-40-50 percent. All we need is a buck a foot. Now in Oklahoma, what a dollar a foot means is if you have an 800 square foot, one bedroom apartment, basically, all you need to get is $800 a month in base rent and your underwriting is going to work great. You know, down here in Florida, 800 sq ft., depending where you are, you're going to pay anywhere from, if you're way up north you might pay $1.25 but down here, down south you're going to pay $2, $3 a foot. So we're very close to construction cost. In fact, we're way under construction costs. Our rent underwriting is conservative. We do get higher rents, no doubt, but we don't need to underwrite it to have some extraordinary success. So I'm very, very excited about our fund, Bob, and we were going to close on those new units within 75 to 90 days. And at the same time that I signed that contract, I issued an L.O.I. , which we will talk about this next month, on 124 units on a growing border town in Texas.

Bob:
Very exciting stuff. I look forward to hearing more details on that next month. Hey, I'm excited about the fund as well, Justin and I think we ought to talk a little bit about the fund. Let's start with some basic stuff. How does one invest in this fund? I suspect you start this process by going to PaxProperties.com, is that right?

Justin:
That's right. So right there you'll have in layman's terms, plain language, a description of who we are, what we do, our track record, that kind of thing, and throughout that narrative, you'll see little buttons “Invest Now”.

Bob:
Okay.

Justin:
Doesn't mean you have to invest now, but if you click on that, it will take you to our Investor Portal, which is a whole website designed to manage people's accounts and all that kind of stuff. And you're not committing to invest when you click on that, but when you click on that, it takes you to the portal. You'll be asked to create your own password, and then you can log on to the portal. From there you'll see again the same description, generally, but you can get the three specific legal documents of the Fund. That's the Subscription Document, the Operating Agreement, and the Private Placement Memorandum. You can download them. You can read them online, whatever it is. And if you decide that you want to invest you could do it all online,

Bob:
Okay.

Justin:
or you can download it and do the old fashioned way, FedEx it or whatever or FAX it or whatever. If you email it, we always, we always have our docs password protected, for email. But on the portal, the portal is secure, they handle, our portal hosts handle many different investor groups. And we have about, 200 or 300 investors ourselves, many of whom are now part of the fund in that portal.

Bob:
Okay. So, Justin, do you have to be an accredited investor to invest in this fund?

Justin:
No, I'm not, sorry. Excuse me, Yes, you do. Yes, you do. Yeah, and do you want to identify what an accredited investor is, Bob, or would you like me to?

Bob:
Okay. Well, I think it's, uh, somebody that's making $200,000 a year and has done so for the last three years. And somebody that has a net worth of I think it's $2 million. Is that? Or is it $1 million?

Justin:
$1 million, so you can qualify one of two ways. By income: If you're an individual, if you're qualifying as an individual, whether you're married or not, you made $200,000 over the last two years and you have reasonable expectations of making that much or more in the current year. So that's that now if you're married, and you want to qualify as a married couple or I guess if you are just a couple, and you want to qualify as as a couple, it's $300,000 a year so you could choose one or the other. Let's say two people make $150,000 each, they wouldn't qualify as an individuals, but they could do it that way. The other way to qualify is by net income and that's a million dollars net worth. Not counting your primary residence. So

Bob:
Okay.

Justin:
Yeah, and there's a way they're going to ask you to prove that, so income is fairly simple. You send in your W2’s, right? Your pay stubs. Or, and then if you're doing it by net worth, then you, either you have someone attest, either, three types of people - a registered financial advisor, an attorney, or a CPA. There's a form letter in the subscription document.

Bob:
Yeah.

Justin:
And they attest. Yes, Bob Irish, I’m his accountant, so forth, he meets the accredited investor criteria. Signs it. That's it. You don't have to provide anything. Occasionally, people want to

self-attest, and so they do have to provide, the SEC requires a little bit of proof. So in that case they have to send in some statements showing whatever seven figures of assets. And then also there's a form there that says “my liabilities”, which I'm not showing you all of my liabilities, but those liabilities don't take me below the net figure of a million, basically. We highly recommend, it's much easier to get someone to attest, but if you have to do it, but if you got a W2, that's easy too. And if you have to do it the other way, it's not terribly complicated, but it's pretty straightforward once you understand the basic concept.

Bob:
Okay, so another question, Justin. I know a lot of people have excess cash sitting in their IRAs. And you know, you're not making any kind of income on that.

Justin:
Yeah.

Bob:
Can you put this Diversified Income Fund inside of an IRA?

Justin:
Yes, you can, Bob, and we have probably, I don't know, dozens, we have dozens of investors who've been investing with us through their IRAs. I know that you yourself invested in your personal name and through your IRA for quite a few years as well. One thing that I always tell folks whenever they inquire about this is they have to realize the implications of it. There's something called UBIT and it's Unrelated Business Income Tax. So your gains will not necessarily be fully deferred. You will have some tax implications on your gains if you invest your IRA funds. And then also there's a form you have to file every year or whoever handles your taxes has to file. Mine is a fairly simple one-page form saying my IRA was investing in something. And the reason for that, Bob, is that when you invest in a fund like ours, or if even if it was a single property like ours, and we're using mortgage, we’re borrowing money to augment the return on our equity, right? Then what the IRS does, it says, okay, Bob put in whatever, $100,000. He made 15%. Of that, you know, 10% of that we're going to attribute to debt because they were levered, they were levered 2 to 1. For every $3 that was invested $2 was borrowed. So that, so 5% is sheltered. The other 10% you may get taxed, and, or, would be treated as taxable, and then your accountant will do whatever they do, and your net result is depending on your situation, but that 10%. But let's say you had an effective tax rate of 30%. Lets call it that. So now you’ve got 10% that's taxed. And so the government takes their 30% so you net 7%. So you netted 7%, plus the 5% that was deferred, so your after tax is like 12%. Where the guy who just invested outside of the IRA, he has 15% taxable. Right? Where you inside the IRA are 12% after tax. Something like that. This is a very crude example. I'm just trying to explain the concepts, not the math. But that's a very crude example. But the reason that a lot of people still invest with us through that, we always insist that they understand this. We even have an FAQ on it. They say, well you know what? In my IRA I'm not looking at prospective 12%. And that number I just picked up was you know just for example. But I'm not looking at prospective returns even after tax as what I would have in your... It's still a better alternative for me. Plus I feel a little more, maybe comfortable with it. Or maybe I want this real estate in my portfolio where I don't have

quite enough of that real estate or this kind of real estate in my portfolio. So there are different reasons people do this. Again, we have many people that invest again and again and we explain it and when all the self-directed IRA custodians should have an FAQ of this as well. If you invest in leveraged real estate, they should talk to you about the UBIT. But again, so that that can be a very, very good investment to the IRA nonetheless.

Bob:
So you mentioned the custodians? You can't put this fund say in your brokerage account. You need to find a custodian. And does your website have a list of potential custodians? Or how does one find a custodian for this,investment?

Justin:
Yeah, so we work with quite a few custodians, and yeah, yeah, I don't know if we, I don't know if we have that list up there. I'll have to check on that. But I can tell you we work with Millennium. We work with Advanta. We work with Equity Trust and quite a few others. And Chris, my son Chris, a good thing to note is Chris's email because he handles all technical stuff as far as like the portal, if you have any glitches when you're working on subscribing. He also handles a lot of the liaison between custodians because we have to sign some documents when you invest with us, and those because Chris will have. Chris's email is Chris@paxproperties.com, which is pretty easy. And he can, he can make introductions for you. He can make introductions to a few, three or four or five of these guys, and you could choose whoever you want. You could choose your own. But he will be able to facilitate that for you.

Bob:
Okay, one last question before we, uh, before we wind up, Let's say someone puts their money into this, invests in this. When can they take their money out? And how easy is that to do?

Justin:
So, Bob, we are, we're long term focused, so this fund is scheduled for eight years. It has two renewal periods of two years each so the maximum it has is twelve years. That's very long for a fund. Most are like five to seven years. But this is how we've always been. We've always been very long term investors. We've sold properties in the past as you know, Bob. You've probably been in, I don't know, three or four or five?

Bob:
Right.

Justin:
Exitted, just exitted. You've been in many more than that, that we that we sold and repatriated all the capital? But, but usually that was for strategic reasons. Right, because we were growing. We just said, okay, it's time to take some cash off the table. Sell this so we can concentrate on the bigger stuff and have more cash to support the bigger stuff. So on this one, when we refinance, we pull out a couple million dollars, let’s say the property, we won't necessarily return it to investors as we did outside of the fund. If we're seeing deals, we're gonna take that, we're gonna take that and we're going to reinvest it on behalf of the investor's. Right? This is

sort of a quasi-analogy, it's not perfect, but you know that Microsoft, when it was growing the first thirty years, it never paid a dividend. Right? And the reason for that was very, made sense, because they were growing so fast. Why would they return capital to investors when their investors then had to reinvest it at maybe, who knows, 10% or 15% if they were lucky, when Microsoft was compounding capital at 30%. Right? Again, an imperfect analogy. Berkshire Hathaway was the same way. Berkshire would rarely distribute, I think if ever, for quite a while, because they had more opportunities inside. So as we are building our fund, when we buy stuff and we build up equity, let's say we're not bringing in new capital the moment, but all of a sudden we have a liquidity event, we pull out a few million bucks. If we're seeing a great opportunity on behalf of our investors, we will redeploy the capital. Now, so theoretically, we could do this all the way up to twelve years. The nice thing is, during that time, we expect investors to make very good yield, to receive significant distributions. Since the beginning of the fund, about ten months ago, we've been paying out quarterly distributions with a 7% annualized yield. And the thing is, and that 7% has come from operations, actually, even though these are new acquisitions which is quite rare, for us anyhow, because we often buy, you know, moribund properties, things that are, are on their last gasp, and then we re-imagine them, renovate them, so it takes a while to bring them up back up to profitability. But everything we've bought in the fund so far has been at fairly high occupancy and we've renovated much more strategically, you know, 10% or 20% at a time.

So we've been paying 7% per quarter. And I expect, they are very good prospects, so that could rise over time to significantly, I don't know maybe 8% in the 2nd year, 8 ½% - 9 % in the third year and so forth. So investors will be receiving return on their money and they should be receiving even returns beyond the pref, greater than the 7% preferred return base, and then they have a big chunk of gains beyond that. Also, if we're refinancing, let's say three, four, five years from now, and we're not finding any more deals, right? So we have a few million bucks, we say, okay, we can't put the money to work. And then we start returning capital to investors so then they may get a chunk of capital just from those refinancing activities. And then, again, I think it's quite possible that after five or six years in the fund, that we may have significant equity built up that we may be able to tap that equity strategically. Let's say we have, for the sake of argument, I don't know, $50 million worth of assets. Probably going to be much more than that, probably close to $100 million, but let's say $50 million and we have $25 million in equity. You know, and we say, okay, that's only 50% leverage. We have, we know we have out of our couple hundred investors we have maybe twenty-five or thirty who wouldn't mind exiting, right? So then we go, okay, folks. We're gonna make an offer. We have a, we're gonna lever up from $25 million to $30 million. We're going to go from 50% to 60% leverage. So that $5 million in equity we're going have, we're going to make an offer to buy people out at market. Right? Then people raise their hand, I want to be bought out, whatever. And whoever does we buy them out entirely, or we buy them out pro rata based on how many raised their hand. So if $6 million worth raise their hand and we only have $5 million cash, we'll buy out everyone 5/6th. You know, they'll have 1/6th still left in.

Bob:
Right.

Justin:
We think that's quite probable, but you know this, the summary, Bob, is that there's three types of money. There's mattress money. There's investment money. And there's speculative money. Right? And so mattress money is stuff, you know, whatever, maybe 0%. Whatever, but the U S government's got it. If you think that's safe, I guess it is. And then investable money is where you actually, you know, someone you're giving the money to is doing the work to provide value to receive value and that's what we do. That's investment. There's risk and so forth, but it's based on, you know, real demand in the market, real work being done, a long history, and all that kind of stuff. And then the speculative stuff we know everything from bitcoin, which we have no control or gold to stuff where you venture capital, right where you're starting a new Uber or something like that. So we're in the investable category. And we're in it for a while. You should not put your money that you need back. If you need it back in two or three years, this, this is not the investment for you. You want it from the set it and forget it money with the idea that you probably can act. We can probably help you

Bob:
Right.

Justin:
with some liquidity events within five to six seven years, but that's not a guarantee, so it's a long term money, for sure.

Bob:
Okay, well, one other, just quick question here.

Justin:
Yeah.

Bob:
Let's say that you're invested in the fund and you're in an IRA, and let's say the fund is paying 8%. That 8% isn't distributed. It sits in the IRA. Does it compound or are we buying more of the fund or what happens to that cash?

Justin:
Well alright. So that's very interesting. So, you can, you can theoretically reinvest. In, like in stocks, they have drips, which are dividend reinvestment programs.

Bob:
Right. Yeah.

Justin:
Actually an investor asked me that the other day. It was the first time I got the question regarding this. To tell you the truth, I'm gonna have to do my homework on that one. You know, for instance, it depends on the size of the investment on the one hand, I mean, maybe, maybe not. Let's say he's a thousand dollar investor. Is reinvesting, you know, a couple thousand dollars

a quarter? I mean, excuse me $100,000 dollar investor. Uh, how does that handlers a million dollar investor? He's investing a couple $20,000 every quarter. I really have to look at that. I'm sure there's a way. Well, let's say I would suspect, strongly, that there's a way for us to accommodate that.

Bob:
naaa

Justin:
But just stumped me. You stumped me. You prove that this is the real deal.

Bob:
We will cover that. We'll cover that in more detail next month. We'll talk a little bit more about that,

Justin: Alright

Bob: But anything else to add, Justin, before we sign off?

Justin:
Uh, no, uh, you can reinvest, Bob. I think you and I were discussed that earlier. So I have investors who invested early. And you know, we have an Increase in share price coming up soon to reflect the growing value and income of the fund, and many investors are doing additional investments at the original price. So that's still an opportunity, will be for a while. Oh one thing else, Bob, you and I next week, we're going to do a webinar. So we're gonna do webinar, yeah?

Bob:
So I heard, yeah. Next Friday.

Justin:
Right, right. So with you know, when you and I talk, this is always recorded later. I mean, it's recorded and broadcast later, and so we get a chance to edit out some of the phone calls, some of the UPS guy knocking in the door, some of that, whatever, all those kind of mishaps. But this will be live. So it'll be, a little bit like, uh, John Belushi and Dan Aykroyd on set. And, ah, I play John Belushi. And, yeah, it'll be live and we'll answer questions about the fund about everything else. And that will be a week from today, Friday which is the 18th and we're going to schedule it around lunch time. We'll shoot out some emails but it should be around 12:30 Eastern time.

Bob:
Okay. Looking forward to that, Justin, Thanks for being with us and I guess I'll talk to you in a week or so.

Justin:
Thank you, Bob.