Bob Irish Video Transcript

Bob Irish: 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 Florida, and also keep you abreast of the underlying investments in the cap plus diversified income fund. I say it every month. I'm going to say it again. 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 good to have you back. How are you doing?

Justin Ford: It's great to be back, Bob. Great to see you. I'm doing well. Thank you.

Bob Irish: Hey, I thought what we might do, is do kind of a speed round on the investments in Florida. Maybe you could just give us a bottom line on everything because I'm thinking if the bottom line is good, that tells some pretty good things about what's going on there. So how does that sound?

Justin Ford: That sounds right. I told you earlier that we were on track on our three location hotels to have our destination hotels, Vero, Melbourne, and Ocala, to have our best year ever. That is continuing that trend. In fact, it's even increasing. It's going extraordinary. And our other properties, also, all of them are improving, even the ones that were in the two challenge markets. So I'll let the numbers speak for themselves, Bob. Let's talk about April and then we can jump to May. So in April Vero was scheduled to have a $53,000 profit, operating profit. It came in at $74,000. Melbourne was scheduled to come in at $24,000 operating profit. It came in at $74,000.

Bob Irish: Oh my goodness.

Justin Ford: Equus was scheduled to come in at 94. They came in at $118,000. Baymont, our problem child actually came home with an A on its report card. Yes, indeed. Schedule to come in at 27, came in at $30,000 last week. Yep. And seven Hills came in a little bit under, but not by much. It scheduled at 66 came in at $60,000 profit. Covering its debt service. GSA was scheduled at $95,000. We're working through evictions and all this. But also when we did our refi Bob, we had an interest rate cap.

So the interest rate cap basically I said, you know what? We've been getting reports in this thing. We own this cap. Let's make sure we get to sell it. We did. We sold the cap. We were forced to buy it on that bridge loan for like $15,000. We sold it for $135,000. So all in. Instead of making $95,000 profit last month, we made $190,000 in profit in

GSA last month. That was pretty good. Wouldn't you say that's, GSA called it the cruelest month, but I don't think he was in the hotel business.

Bob Irish: Hey, that's some kind of month. Hey. Oh my goodness. That is great, Justin.

Justin Ford: We're extremely pleased and it's very hard to top that kind of month. And yet, would you like to hear about May?

Bob Irish: I'm dying to hear about May.

Justin Ford: Indeed, they're doing it again. But even before I tell you the numbers, let me tell you what's behind it. It's not just the numbers. So I think it was three or four days ago. The trip advisor top awards came out. So they came out with other news. Our four independent hotels, all of them won the top award this year on the same day, every single one.

Bob Irish: Talk about validating everything that you're doing. That is really something. All four?

Justin Ford: All four, all four independent. The only one is Baymont and we're dropping that flag. We're going independent soon. As I said, I always thought that we brought more value to that franchise than they brought to us. But in any case, no knock on those folks, but I just think that we do things. We really try to deliver extraordinary value in our price category, our market segment. So they went, all four. And the cool thing about that Bob, is I told you that until then, our last three independent hotels had won Trip Advisor's top award every year they've been in existence. That's still true.

So Melbourne in the last six years. Seven Hills the last three years and Equus now the last two years. However, Vero had never won it because Vero was our first big hotel. You remember it? You're an investor.

Bod Irish: I remember.

Justin Ford: It's 100 units. I didn't know how to run a hotel. I barely do now, but I have a lot of great people who do. And I just bought it at such a cheap price but if I can't figure out how to run a hotel, I can rent them out as studio apartments. And so when I went in there, we fixed it up, we put down tile floor, we made it a bit better. And all the old furniture. I'm the youngest of eight so we have hand me downs, used cars and we don't throw things out. So I was like, oh, this furniture's perfectly good. So we just painted it white and it looked great. And that worked for about a year. Year and a half. After a while, coffee mugs lift up the paint on the thing.

And so we're reinvesting in it. So all the other ones that we did subsequent to Vero, we got a little better and better. But Vero, we've been reinvesting in it. It looks great. We got rid of the drapes. We put in our signature plantation shutters. We updated, we punched out all the rooms again. Painted all this. We took care of all the public areas again. We upgraded a lot of stuff. So it's definitely been rising. We reset our trip advisor rating. So we went to the back of the pack and now we're number 15.

I think Vero will hit number one sometime in the next year. We have an exceptional GM there. That young lady Sudan. She was one of my first employees when we worked out of a garage, 10 years ago. So Vero now went from, always middle of the pack. They produce good returns. I think Bob, we probably average paying you close to 20% cash on cash.

Bob Irish: Oh yeah that's been a great investment.

Justin Ford: It's been a great investment, but it was an okay hotel. And eventually, sometimes it became a problem hotel. We had GMs in there while we were growing, who weren't really on the ball and we weren't on top of them as much as we should be either. So it got a little shady, sometimes a little iffy, but now our rates are up. The hotel's beautiful. We just won the top award. We're going to reinvest in some more stuff in there. We're going to redo the bathrooms, the old tubs and so forth. Probably convert them to showers and that won the top award.

But let me tell you what that means now with the profit. We showed you how it beat its profit last month by $21,000, it's budget of profit. So in May, Vero is budgeted to produce $34,000 in profit. It's on track to produce $118,000 in profit this month. And Melbourne is budgeted for 55. It's on track for $74,000. Equus is budgeted for $56,000, it's on track for $108,000 in profit. Operating profit.

Bob Irish: Oh my

Justin Ford: Seven Hills is budgeted for $45,000. We know that's in a struggling market. That's budget for 45. We expect to come at 46. So even Seven Hills, which was struggling because that market was impaired with the university and government. It's now meeting its budget and even exceeding it a little bit. Baymont actually this month we're having a little bit of a pullback, we're getting ready to go. It's going to fall short of its budget, but it's going to do a little bit better than break even on an operational basis. We're still working that one out.

We think again, when we convert that to an independent, it'll be like Vero, it'll be reborn. It'll be like our other hotels and that one too. If we keep operating as a hotel, even more extended stay, but a higher level of extended stay that one too will win Trip Advisors top award. We'll make it go from middle of the pack to first. And then GSA is around $89,000 in profit versus a budget of 98. And that's because we're still working through some of those COVID evictions. So those people who stayed and kind of just camped out and took advantage of the situation, like one tenant owes us $17,000 that we couldn't evict.

Given all that, we're only less than 10% below our budget. They're still producing $90,000 and we have 7 new move-ins this month. We have 7 evictions in process from the COVID hangovers and that's going to be on track to produce about 1.2 million in a 12-month calendar year. So everything's looking quite good on the non-fund properties. I hope you'll agree, Bob.

Bob Irish: I certainly do. My goodness. What a stellar month you're having this month and April of course was just mind blowing, wow.

Justin Ford: And Bob, I should mention that our high season for Vero, Melbourne and Equus is February and March. So to do these kinds of numbers now in April and May is just for real testament to the snap back of the market, but mostly to our team and how hard they work and the quality of service and product they deliver.

Bob Irish: Yeah. For people that don't live in Florida, they don't realize that we really do have peak seasons. And it's over. Delray right now is kind of empty and it's kind of nice. We're liking the less traffic and all that, but from a hotel standpoint, that's amazing. You're getting those type of numbers in May. That's great stuff. Hey, let's shift gears. Let's talk a little bit about what's going on in inside the fund.

Justin Ford: So the fund, on a profits basis, of course we're renovating there at Elevate and Apex. So they're both producing positive EBITDA but of course we have units out of service and so forth. And Port Saint John is just hitting its numbers. That was budgeted at something like $665 a year or something, and it's hitting it. Usually exceeding it a little bit, because we have the same tenant base. We have one tenant that's going to leave soon, a nail salon tenant. We've contracted with a sharp local leasing agent for retail.

We've renovated, we've installed the new fence. I think I mentioned that power wash and Win Dixie, the supermarket, the anchor at Port St. John is now undergoing their upgrade. That was a possibility now it's happening. That's really cool.

Bob Irish: They're upgrading the store.

Justin Ford: Yes. They're upgrading the stores, a lot of these stores. Whole foods was the first to make kind of like an experience, I guess maybe if it wasn't and then a lot of them upgraded and they have like coffee bars or a little sushi bar, like a neighborhood market feel and freshness and all that kind of stuff. And Win Dixie, which was kind of like the second tier or even third tier sort of super market, after his bankruptcy, it paired down to I think 400 stores or so, and it's much stronger now. And they're upgrading a lot of the stores in the same way and this store was on target for that. And now they're actually doing it. And we're really excited about that. It shows commitment, they're there for another 10 years, they're locked in.

We think it's going to be dynamite and we're going to do everything we can to be excellent landlords for them to help them bring even more traffic. We're doing a lot of new investment in that particular property. So those properties are performing well. On the renovation front, Apex, we bought it last May. We are scheduled to finish our renovations this May. So it's going to be our quickest turnaround. There are 91 units. I mean, renovated inside and out. And people can go to Apartments.com I guess. I don't remember the website of our new Apex. Usually I know them all, but I'm not sure. But if they go to Apartments.com and look at apex, they'll see the photos.

And apex in Tulsa it's beautiful. We've installed washer, dry units and every new unit as well. The only part that won't be done by the end of May is the meters, which there were 40 units that are on common meter. We're moving everyone to separate meters. So now they pay their own electric. They're going to get a bill back for gas and so forth. And their base rent is going up regardless, because it's much higher quality property. People are happy to pay. It's full of amazing value, but those meters, there's a delay in the materials because of everything else, but it won't disturb everything.

All the 91 units will be renovated. The meter work mostly will happen outside and in the attic. They'll just have to come in and connect it to the panel. They will have to change out the panel, but it's not like a demo-type thing. So we'll be done, done, done at the end of this month. So I'm extremely excited about our progress and the construction site. I was out in Oklahoma just two days ago. I flew out to Texas to look at a property in Harlingen on the border and that was a dump.

I don't mind, I bought plenty of dumps. We turn published worse to first. But it was a dump that was priced like it was a Ruby, especially in a rising interest rate environment, I said no you can keep it. So then I flew from Harlingen into Oklahoma, checked out Elevate, worked a little bit on Mansions, our next property and went to Tulsa as well. And Elevate as well, which is Oklahoma City Bob, you call that's 126 units there.

We were red tagged there. So we're delayed a couple of months. And now we're back with Warren. We're going to have 10 units done this month, our first 10. We'll have another 30 by the end of June. And then we're cranking to still have everything done by the end of September now, to the end of August, that's 126 units renovated.

The pool area is largely ready to go. All the heavy behind the walls work has been done. We discovered a huge leak there, when we go in there and we have such a great head of construction. Angel, he's our site supervisor. He and I have been working together eight and a half years. We started in Vero just like Samantha, our director of operations. We've all been together for eight and a half years. We started when we bought Vero, they were working there. And when we go into those walls, you see some of those walls behind the walls of the kitchen when we're putting in new cabinets.

And sometimes that cast iron is just, we cut it out and you can cut out eight feet of repair. So if it's 16 feet, we just count that as 2, 8 feet sections, without going for the permits but we do have permit going on in all this and wherever that stuff is old, all we cut it out. And we found old piping underneath the floor that was just basically corroding and just bubbling up. And we found that at Apex too. We will bust through that and we'll bust through 18 inches of concrete, go four feet down in the dirt, get to that old pipe and just cut it out and put a new pipe.

And then our supply lines replacing with new packs, which is a product that for high pressure lines is even better than CPC or CPVC. So we're doing all that work that's necessary when it's necessary behind the walls. We don't just put lipstick on a pig. We want to own the asset forever. And so we want it to be good behind the walls and of course everything the tenant sees. We think Elevate is going to go well. Mansions which is our next acquisition, that's the one in Moore, Oklahoma 146 units.

The schedule now we just postponed was to close June 15th and we have another clause where for some money we could extend it between 30. But Manson's, again, we want to do that in 10 months. We want to do 146 units in 10 months, including the exterior and I think we can do it. I think we're getting that mature. Our guys are really sharp even on the project management and the budget side we're getting better and better. So it's been a long, tough, haul through COVID. But stick-to-it-iveness seems to pay off, seems to pay off Bob.

Bob Irish: Wow. That's just nothing but good news from the fund side of things. Speaking of the fund, am I correct? Isn't this the last month for new investors to get in at the old pricing?

Justin Ford: That's correct. So at the end of March, we re-priced. April, we asked people to put their docs in, but new investors can even get their docs in this month, but after May 31st new investors can no longer invest at the current price. It's going to be the higher price, which I think is about 15% higher. And we're happy at the end, at that point at the end of May, we may not accept any more funds after that. We may deploy what we have. We've already raised over 20 million in equity, really mostly only through informally reaching out to our existing subscriber base. We never did a marketing campaign. We never announced it to a big newsletter file or anything else, but just our much appreciated, mostly long term investors had stepped up and provided 20 million in equity capital.

I don't know where we'll end the month up, maybe a little over 20, 21, 22. But with Mansions, we'll probably acquire with that, one or two more properties. After that, we may wrap up the fund. We may continue and buy, I mean, wrap up as far as acquisitions. Buy what we buy, produce those generate returns. We just paid our fourth straight quarter of 7% cash and cash yields for the fund since inception, every single quarter.

And all three of the first quarters were covered by operations and interest income. This quarter was a little short because of the renovations, but we're on track with everything. When we're done all of it will be covered by the operations income as well. So it's going to be an interesting time going ahead, Bob. I don't know if you've noticed, but the Federal Reserve raised rates last month, but did you catch that on the news?

Bob Irish: I must have missed that. When did that happen?

Justin Ford: Yeah. Well, the stock market caught a little bit of a cold it seemed because of that. We're entering interesting times. For the last two years, brokers were more precious than the Pope, getting them on the phone, you'd call them and tell them you want to buy something and they wouldn't even return your call. You'd show them you had the cash, you had the credibility and all that. They were just sitting on top of the world. Now they're actually polite. They're calling you again. They're checking in on you. They're letting you can actually put in any offer you want. The tenor of the market is changing and it should because it was getting absolutely crazy.

And it's going to be an interesting time because you have two competing forces. I won't go into it in much detail. Maybe we're going to address it next month. But this is a time of migration, inflation, speculation, and desperation. Those are four forces. So migration, you have all the people coming from the north down to the tax-free states, the warmer states, less crowded, et cetera and less expensive. And they're making these states more crowded, more expensive, etcetera. And they may make it more regulated, more taxes as the demographics change as well.

So you have all that going on. But then you have inflation going on. Inflation creates higher interest rates is what we're seeing. And the inverse correlation between higher interest rates and real estate is strong. So real estate does correct, but in what markets, which is going to be the stronger force, all the people coming down here, throwing money? Even the New Yorkers and the Californians store all the money at relatively cheap property in Texas and in the Southeast and Florida.

They're not going to be paid as much as they did before because their cost of money is higher. But they may continue to push it for a while. But you got to wonder in the states like San Francisco, where they have people or markets like that, where people actually leave to go to Iowa and to go to other places. And have high taxes and have higher interest rates, what's going to happen there and in Chicago and in New York? And what's going to happen in the tertiary markets. So some of the experts in the tertiary markets, they get hit the hardest, this type of correction. I think they're absolutely wrong.

I think Oklahoma and Tulsa are going to do beautifully. I mean, we give them top match properties at a buck a foot. You can't touch that anywhere, anywhere, anywhere. I don't care whether you're in Texas, Florida, anywhere else. So we are fundamentally priced. We deliver exceptional value. We got to get to our permanent interest rates from a bridge now quicker because we want to lock in our interest rates. Even when we lock them at five or we used to lock it at four, we'll lock them in, we'll amortize it alone. And we may even do better than that, because we may do some of the agencies, like a Freddie, that'll put us, where other stuff is at 5, it might put us at a 4.

And if we went to a HUD, but those take forever. If we went to a Hud, we might be 3.9 or something or four. But in any case I do like the way we're positioned and we got whatever it is a couple of weeks before the end of the month. So those who have been on the fence, now's the time to jump one way or the other.

Bob Irish: Yeah. I would encourage any of you listening right now, who are on the fence to jump into this thing before the month is over because the price goes up and who knows whether you're even going to take any more money. I get it. I mean, at a certain point, there's no value out there.

Justin Ford: Yeah. What we may do, or we may do at one point, is build, because I think the cost of land is much better than existing property. And I think you can build brand new in certain markets, right next to 70 year old property that they're selling for 10% more than your total cost of building brand new. So that may be an interesting thing, but that would be much further down the road. Probably early next year we look at that in serious detail. But right now we're very happy with the existing stuff we're buying.

Bob Irish: All right, Justin. Well, thanks so much for the update. Anything to add before we sign off?

Justin Ford: Nope. Just it's been a very merry month of May.

Bob Irish: It certainly has Justin. Great to see you again. I'll look forward to chatting with you next month.

Justin Ford: Yeah. Great to see you, Bob. Thank you very much. Bye.