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Bob Irish: Bob Irish here with our monthly call with Justin Ford of Pax Properties. Today, we will update you on the standalone investments in Florida and keep you abreast of what's happening in the underlying investments in the Cap plus diversified income fund. I say this every month, and I'll say it again, through real estate booms and busts, Pax Properties has never failed to produce a positive result for investors or missed a mortgage payment. Now, Justin, this is our year end wrap up. It's been one heck of a year. We've got the stock market down 20%. We've got inflation running at eight or nine or pick your number. We've got an inverted yield curve. We've got the Ukraine War, which is throwing the geopolitical environment into turmoil. I can say this, and I think I probably speak for a number of investors. I am so happy to have a good portion of my assets invested with Pax Properties, the same Pax Properties. It's never failed to produce a positive result for investors. Justin, having said all that how are you? It's great to have you back.

Justin Ford: Great. Thank you very much, Bob, and I appreciate that. Appreciate the good words. Yeah, it's been a heck of a year, Bob. There are parts of 2022. I will not miss, I guarantee you that.

Bob Irish: For sure. I mean, Christmas has come and gone, but we've had a little coal in our stocking in a couple of properties. Why don't we tackle those right off the bat?

Justin Ford: Sure. So there are two hotels that failed to emerge from Covid. That's been the story. We worked so hard on them. We're making some progress, especially at Seven Hills, but not really enough. So we're going full steam ahead with the conversion to apartments. The good news there is there's already one conversion in town. They recently finished. There are also other conversions that are being planned that we will finish before they get it. The reason the other conversions that are being planned are interesting. It shows that other developers are seeing the opportunity in the market as well. The one that finished, George my right hand guy and I, we visited a few times. They're in about two-thirds leased up, and they're just now really finishing their construction.

At the same time, in our last call we discussed, I believe, I know we did, we discussed our pre-submittal meetings with the city and they gave us the green light on turning 134 hotel rooms at Baymont into 129 apartments, and for turning 160 hotel rooms at Seven Hills into 160 studio apartments. So that's big. We have the notes, we have everything. I was in touch with the mayor last week of Tallahassee. I've never played politics in my life, as far as I just wanted into my business. This guy was amazing. He's the guy I told you a few years ago, after we opened. He came, he thanked me personally. He

introduced me, he said, why don't you do the building department and all that kind of stuff?

We had record sales on the books. I mean, by huge margin. Then Covid hit. We all know the rest of the story. But he's nice. He's still in our corner, which is great. So I'm going to reach out to him to see if we can expedite the process if we need to, though I'm not even sure if we need his assistance because the city is very gung-ho. I'm providing more affordable housing. There's a whole brochure that we found that describes that the city puts out, and we're meeting with them next week. I'm going up on the 1st of January. I'm going up at night. I'm flying up, and I'm going to be in Tallahassee for three straight weeks. I'm going to be meeting with city officials. I'm going to be doing market tests on leasing.

We've come up with a whole new strategy on how we're going to be leasing these apartments. We've already started testing. We already have our first tenants actually starting to sign up. Even before we have apartments ready they're going to be taking basically hotel rooms, and some of them are going to be taking what we have as our junior suites in Seven Hills with what's called wet bars, which is basically a little kitchenette but without the appliances. But they can still plug in a hot plate and they have a microwave and you could plug in an air fryer, that kind of thing. And they have a full size fridge. You have a fully functional, a little kitchen in this studio apartment, which is beautifully furnished.

I mean, it's absolutely gorgeous. It's Trip Advisor's top award three years in a row. Ever since it's been open, like all our independent hotels, our last year of Trip Advisor every year in a row. This one got caught in a market, that's really still hampered by Covid. And we made the pivot to leasing to the homeless shelter, which helped us for a while. But it's been a struggle to emerge from that. We're making some progress. Last week at Seven Hills, we actually beat our comp set for the first time in a long time. We came in at 110% of revenue per available room. However, the rep part in that particular market during Christmas really sank. So we were the best in a pretty dumb class.

Justin Ford: So we're looking for these next couple weeks when the market returns to where it is, and we're going to see if we return with the market as the man basically doubles over what it did over the Christmas period. Having said all that, we have the architects engineers lining up. I have a meeting with the architect and the engineers when I go out there, onsite meetings, they're already busy doing the drawings. Some of them already worked on initial renovations with Seven Hills, so they already had the CAD layout out, the AutoCAD. So we have our subcontractors lined up. We have our materials lined up. This should be one of the most gratifying renovations I think we've ever done, because we're not putting down new flooring.

We're not doing a lot of demo. Everything's beautiful. The amenities are all there. Everything is gorgeous. We're just going to go in there and on the 4 new ones that have the kitchenettes and Seven Hills, of the 40 units that have kitchenettes, of the 40 of 160, we're going to run new subpanels and powers, so that we could drop in cooktop and a convection microwave oven, so you have a fully functional studio apartment. We're going to do the same and then on the other 120 units in Seven Hills, we have to bump out what's called a chase wall, so we can run new plumbing to create that kitchen and then run the electric as well to power that kitchen. So there's a little more scope of work in there.

But again, you're not tearing up floors. We've got all our beautiful floor, we've got all our beautiful furniture. We got the gorgeous, gorgeous bathrooms. We got those lovely plantation shutters. We got those beautiful mini splits. So we have the bones of just a beautiful studio apartment, something you absolutely cannot beat. And at Casa Bella, it's similar. Casa Bella is not as nice as Seven Hills, but it's very nice. And we just went and have a great project manager, young guy who we worked there for a while. He knocked out that pool area. We expanded it, we got hammocks now, we got gazebo. We're turning into much more sort of, be away on vacation while you're at home. We created a great little dog park.

We lit up some of the trees. We really gave it more of that, all the common areas. More of that kind of nice, just that great community feeling, where you can really kick back with folks. So we think that this is going to be a really, really excellent conversion. Now, at the same time, while we're doing this, I'm talking to brokers. I'm like, Hey, if you want to talk to your conversion guys and they pass the right money, we're, like said, as long as we're getting out whole, and we're getting our investors a good catch up with their prep and all that. So we're looking at that. If the market gives us that, we may do that, but we don't need it.

We're confident that we're going to go in and do these conversions and we'll knock them out of the park. But we're just waiting for our permits to come in, which we expect to submit all our paperwork with the engineers and the architect third week of January, and I'll reach out to the mayor before then, and if they can expedite us, we might have a very early February, and then we're pretty much off and running. So that has been a tough story, but it could end up being a very, very beautiful turnaround from a very difficult situation, Covid. Especially given the fact that Seven Hills, by the way, as I mentioned last week later on in the market cycles, few years forward, the value of that, just for the fact that you can build 405 units on that property, 405 apartment units and apartments are still dramatically in demand, even beyond studios.

And you can build 506 if you go for the density, the extra density, the bonus density, because of making them affordable to people making 80% of the average median income. So we have lots of possibilities. We have a plan going full force, and we like the prospects of our lease up. Our marketing already is showing this. The last thing I wanted to mention was our marketing strategy. What we've decided is this, we're going to go after FSU, FAMU both the students, upper class level and the graduate students. We're going to go after the people who work there, and they're going to have a very special discount. We underwrite this, we'll make great money at \$695 base rent. But basically we're going to price it at about \$945. But the special segments that we're going to target can get it for \$845. And with the Rent Savers, which is, they sign up for automatic payments first, they go to \$795. The underwriting is \$70.95 plus utilities, which they, we bill them back for, is a super home run on both those properties, on both those properties.

And after doing a lot of market research, we think we're going to be able to build this for FSU students, for FAMU students, for the people who work at those. They'll get that special discount, plus the Tallahassee Medical Center, which is a very large medical complex in Tallahassee, plus certain sectors of the government, plus first responders. So those are going to be our target markets. They're going to get the special rate. And we think by building that special rate, because it truly has a beautiful small resort feel, Seven Hills especially. But even Casa Bella. So we think we're going to be very, very successful. We just can't get our permits fast enough. We're excited to get this going and turn these around.

Bob Irish: Well, Justin, I think this is a great pivot that Pax Properties is doing. I'm looking forward to seeing how the whole thing develops. I know you'll have some more details on this on our call in January. Let's move on to the good stuff in the Christmas.

Justin Ford: So we'll talk about the other three hotels right now. So the other three hotels are indeed having record years, all the way from Vero, which is our oldest hotel, which we've owned over nine years. We expect that to come in around \$550,000 in profits this year. We bought that for 2 million. We put over the years, maybe close to three. So those are really strong numbers. And that's a record year. And the trend keeps getting better. The first quarter of 2023 should be record. That's when we have our highest sales, February and March. So we really like what's going on there. We expect a refi very soon there from our current loan. And the refi, when I mentioned refi, by the way, we will structure any refi that we do because we want to recapitalize.

When we do that, it'll be a loan that we can adjust down when interest rates go down without great prepay payment penalty. So we structured as, we're not going to be locking in the high rates of today. We'll be paying the high rates of today, but they're structured and negotiated upfront so that we can scale down the interest rate and

eventually locking in when interest rates get to where we feel are a more traditional level. So Vero is doing great. Melbourne also on track to have a record year. Melbourne is heading for \$670,000 in profits this year. Again, something we bought for 2 million, with the renovations on that, we were in that for about 7 million. So the level of return on that is terrific. We've been paying investors on both those properties, well over budget, double digits for years and years.

Well over five years. So Melbourne's doing well. And the youngest member of the hotel family, the Equus indeed, is securely on track to be our first property to produce over 1 million in profits. And again, that's won triple tripadvisor top award every year in existence. Those are strong destination markets. We're outperforming there. And we're beating our comp sets. Most months, if not consecutively, many months on the route part on the comp set. And we could come in close to a million 40, a million 30, a thousand, and that's going to be very, very exciting. So the hotels in the right market are just doing gangbusters.

Bob Irish: Oh, that's fantastic. What a great wrap up for the year. That's fantastic. Let's talk, as long as we're in Florida, do you want to talk about Port St. John while we're in Florida?

Justin Ford: Yeah, yeah. Let me jump to Renaissance since that's outside.

Bob Irish: Oh, yeah. Okay. Yeah. Let's go to Renaissance.

Justin Ford: Yeah. Renaissance Apartments, we're at 98% occupancy. The profits, I didn't check the exact numbers. We're going to be over a million this year. Again, we were shaking off some of the doldrums of the people, the non-payers, from all the covid stuff. But we're targeting 1.2 million in 2023 in profits. And that property has practically zero deferred maintenance. I recently went up there a few months ago and had a serious talk with the property manager. Every time you go there now, our properties look gorgeous, everyone, the garbage pail by the swing set kind of thing. It looks pristine everywhere. And so I'm really excited about our prospects of Renaissance. So I think that wraps up our non-fund properties, if you like we can jump into the fund ones.

Bob Irish: Yeah. Let's talk about the underlying investments in the fund. Where do you want to start, Justin?

Justin Ford: Well, since we're in Florida, we'll do the only Florida property that's in and that's Port Saint John, that's our 79,000 square foot grocery anchor retail shopping

center. Right near the coastal there in Port Saint John, Florida. We bought that for seven, eight, what the roofs were doing. And few other things will be in about eight, five. And that's producing this year, to produce the last T12 we have in that was \$550,000 in profits. And when you lever that, our equity in that thing is only like 3 million. Again, the returns are double digits. And that's a property we've had a year and a half. And our occupancy now we're at 100% again on the occupancy on that one. We've been for a while. We have that one interesting tenant who sort of pays and then disappears and then pays a bunch of months so all in once, and they have this arcade operation that we inherited, but their lease is valid. And until their renewal is up, we're getting paid. So we're, we're very thrilled about how that's going.

The supermarket itself is looking beautiful. They're implementing an upgrade is the last news I heard. The demand in that area is strong. More people tend to move in, continue to move in around that area. So the support for that shopping center, which just renewed for 10 years still remains strong. So we really like what's going on at Port Saint John. We're looking for more grocery anchored retail centers. We're seeing more opportunities arise. And that's why in our last conversation I was telling you, we might be offering equity investors the opportunity to add more equity at the original price that's in the docks, only the original investors before our price raise. So those kinds of opportunities are starting to appear and we think we can see where they really make sense just as they do in Port Saint John.

Bob Irish: Beautiful. That's great. Let's go to Oklahoma.

Justin Ford: Okay. So that's where the other three properties in our portfolio, and those are all apartment complexes. So we have the 91 unit Apex at Tulsa. And Apex, we finished that a few months ago. Now we're in the process of the HUD loans. So the HUD people are coming back, they're making us do a few things like the railings. The railings, they have five inch caps and the new code is four inch. So now we're figuring out, do we weld bars in between, it costs us whatever, 15,000, we're getting some bids, or do we spend 15 or 30,000 to have someone just put new railings all around. So we're just doing little things like that. And this is the necessary stuff that you deal with when you deal with like an agency loan. Because they're related to all government requirements and all that kind of thing.

But that's okay. It's a settling crack in one of the walls, which is not a big deal. But we have to have an engineer come out and say it's not a big deal and there's all that. That is at 95% occupancy. And we think within a week or two, we'll be back at a hundred percent. And we're getting our proforma rents. And I love the Tulsa market. Every now and then you Google it, you'll see articles about Tulsa now. But I was telling people two years ago, it's a stealth growth market. It reminds me, when I went into first Austin, I told everyone about Austin in my book in 2007. So I love Tulsa. I love that piece of property. We might be more buyers in Tulsa and so forth in the future. But there are other

markets we're looking at as well. But I just like that market so much and I'm very happy with how it's going at Tulsa.

So then the other two are under construction. The next one would be Elevate in Oklahoma City. We've delivered 54 units, renovated completely. By the end of January we'll have another 19. So we'll be at 73, which is over 50%. And the others are well underway. And the remaining ones, oh, by the way, of those 54 delivered, we have 51 rented at the new rates. So the demand is very strong there. It's in a really good area. And the remaining renovations, we did all the ugly stuff first. The lower units, we had breakup floors get down to the cast iron pipes and some of these issues, that kind of thing. We're pretty much done with our large exterior renovations, which has transformed the exterior look of the property. Removing the mansard and putting on ifis, which is a specific type of stucco, like coating. It's insulated. It makes the building more efficient.

We patch up the roof. So I was there with my head of construction just last month. And it's amazing the level of detail we're doing on this very much like Renaissance where we're going behind the walls, on top of the roof, all new windows. We don't do the lipstick on a pig bang, we want to own it for a long time. So we don't want to own problems for a long time. We want to take them all on early. And so we're at the stage where we're really ready to get into fifth gear, and I think we're getting into fifth gear. My head of construction is getting back from his holidays, the 2nd of January. My son Chris will be out in Colorado the week after that helping speed things along. So we really like how Elevate is going. And we're still shooting to finish that before the end of the first quarter.

And just about all the exterior stuff is done except for our dog park, because we had some scaffolding in the way. The tenant moves in now sees a beautiful pool, an amazing gym with two saunas, by the way. We bought two very affordable saunas, like 300 a piece or something like that. And they sit there, it's just like a little extra detail. They're really cool. I got to get one from my house, actually. And then we're going to be doing the parking lot soon. We couldn't do it now because we had all the containers everywhere and that kind of thing, but the outside is looking amazing. So every 10 moves in is moving into really a beautiful place. Sooner, it will be a beautiful place that's post-construction, which is always the best.

And then last but not least is Ascend. That's the 146 unit apartment community in Moore, Oklahoma, which is about 15, 20 minutes outside of Oklahoma City. It's a good area. It's right off isle 35, I think the highway is there. And there we've probably delivered about 35 units. I'm sorry we haven't delivered them, we've finished all the cosmetic renovations. Now we're finally getting to the point where we're getting our electric and our AC all approved. So those A/Cs we expect to be installing on A/Cs about 10 a week, beginning the middle of the new year. So by the end of January, we

should have 35 to 40 units move and ready. And we have a new contractor coming from Chicago, a guy who is part of a business group I belong to for a number of years is called entrepreneur Organization or EO. So one guy recommended this guy in Chicago, he's not too far from Oklahoma, he flew into Oklahoma. I went there as well.

We met, we walked the units and these guys, and they've done like thousands of units and these guys are hungry. And they're telling me they can help us complete 7 to 10 units a week. And even if they do 5, while our guys are doing 5, we could be out of there sooner than we budgeted. We budgeted to get out of the whole thing within a year. We could be out of there before June. Fully renovated. Almost all the exterior's done. There's still some stuff, but we've done a lot of the heavy lifting, all the exterior painting as been done. I have to work on the gym. We're waiting for the equipment to come in things like that. So that one I love in that, again, we did a lot of heavy lifting.

We had all these old pipes that we replaced. But it wasn't inside the units for the most part. All the old pipes were leading from the boiler room to the apartments. And then in the water feeding apartments, that was where we did most of our digging and so forth. And we spent a few hundred thousand dollars doing that. And a lot of heartache and a lot of playing whack-a-mole, which is the nature of plumbing. You fix it here, all of a sudden, it shows up there because now you create more pressure. And so the weaker pipes burst. So we've done that work, but the interiors are great and I love that. There's nothing better than just putting on. I mean we're putting in windows, we got old sliders. We're putting in double French doors, but I consider even that cosmetic compared to going behind the walls and discovering new cracker jack box situations as you open the walls.

So this one, we're moving fairly quickly and we're getting our wrench. We already have people ready to move into our first few units once the AC is inspected and finalized. So we should have our first few tenants in there by the end of the first week in January. Again, by the end of January itself. I'm expecting that between 35 and 40 units rent and ready and us to be, at least half those are already rented. Again, we're looking at strong demand.

Bob Irish: Wow. Sounds like things are going great in Oklahoma. Things are okay in Oklahoma.

Justin Ford: A okay Bob. Absolutely.

Bob Irish: A okay. That is good. Justin, anything on the horizon? Are you looking at any acquisitions at this point? You're just still doing due diligence out there. Is that in the cards? We talked a little bit about it last month, what's going on there?

Justin Ford: Yeah, so we're looking at those grocery records, shopping centers. We're looking also at multi-family as well. Right now we want to get our permits, we want to get these things, that thing going, but we're still looking there. They're really not related, but we just want to have the focus where this is going, so that we can enter our next acquisition. Our future acquisitions we are looking for more, less heavy lifts. So they're not such a heavy lift. We don't want to go behind the wall so much, because that does take a lot of time. It takes a lot of our focus and our attention, our energy. We don't mind doing the heavy lift outside like we did at Moore. And if the inside can be more of a quick turn, we'll do all the heavy lift that we want outside, because then you're not really, for the most part, you're not impeding your lease on.

And you don't have so many inspections for every unit because when you do a heavy lift, one of the things that really holds you up is inspections. You got your framing, you got your insulation, then you got your drywall screws. I'm sorry. Before you got your framing and your insulation, then you got your electric, rough electric], your rough plumbing, then you got your blah, blah, blah. There are like 8 or 10 inspections. And that really adds to the time. The scope of work we're doing at Mansions, we only have a few permits needed. The electric associated with the AC and the AC itself. And the rest just runs, it just runs, runs, runs. So we're looking for more opportunities like that. We do like to sort of get the job done, get the thing leased up, get good management in place, and see if there's another opportunity around the corner.

Bob Irish: Hey, that's great Justin. What a great recap. And as I said up top, I said it's been a crummy year from a lot of perspectives. But it hasn't been a crummy year at Pax Properties. And I want to thank you on behalf of all the investors for the effort, the time, and the intelligence that you're bringing to a tough situation. So Justin, let's hope 2023 is the best year ever for Pax.

Justin Ford: We'll do that, Bob, but hope remember is a poor strategy. We're going to do more than that. We're going to give it everything we've got. We're going to make it a great year for Pax.

Bob Irish: Alright. That's great, Justin. Talk to you next year.

Justin Ford: Thank you, Bob. Take care.

Bob Irish: Bye

