**Transcript 4/26/23**

**Robert Irish** [00:10]: Bob Irish here with our monthly call with Justin Ford of Pack's Properties. Today we're going to update you on all the standalone investments in Florida, and of course, keep you abreast of the underlying investments in the Cap Plus Diversified income fund. I say it every month here it comes again. Throughout real estate booms and busts packs, properties have 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** [00:44]: I'm doing well, Bob. Doing very well. How are you?

**Robert Irish** [00:47]: I'm doing just terrific. Thanks. Let's just jump right in here. I want an update on the two pivots that we talked about last month, specifically Casa Bella and Seven Hills. What's going on there?

**Justin Ford** [01:01]: All right, so, Casa Bella, which is 134 units on Appalachia Parkway, and then Seven Hill Suites, 160 units on North Monroe Street. Both hotels that were in the process of converting to apartments, weve already talked about, and we had the pre-submittal meeting. I tell you, we continue to have all this support from the city. The commissioner, one of the commissioners' offices reached out to us. This was after the mayor, we had exchanged some messages, and he refers different folks. They're very much in favor of this conversion. We've been working with architects and engineers. We finally got our plans from the electrical engineer. We've had the plumbing. We have the architect for Seven Hill Suites. Today, we are reviewing those plans with the electrician at Seven Hill Suite. We'll do some modifications. We're hoping to have a final plan where all of us agree this is what we're going to submit next week.

And even before we submit it, go sit in the commissioner's office, talk to them about our plans, and help them and ask for their assistance, because they do have a program and they offer expedited permitting where they offer sometimes supplemental financing, even at 0% interest. They offer some tax breaks, all these reduced fees. So there's all these kinds of things. They've already, like I said, reached out to us. So, we're finally getting traction on that. But wheels don't move as fast as we want, but we're putting our weight to the wheel as much as we can, but we expect to submit permits on Seven Hills early in May with the city's full awareness and blessing and their encouragement of all the inspectors and the plan reviewers so we can, so we can move fairly quickly.

We already have a lot of the electricians, the plumbers, and the carpenter contractors lined up. So, we think that once we get that final green light, we're going to move quickly. In the meantime, we've been doing some partial lease-up, month-to-month leases, and all that kind of thing. We've made a little bit of a dent, not a huge dent, but a little bit of a dent. But by this time next month, I expect to be by our next call I expect to have the project started on the conversion of seven oh suites and the plans ready for submission for a permit for Casa Bella.

**Robert Irish** [03:09]: Good deal. So, that's the news on the two pivots. I'll look forward to catching up with you next month to find out how it all goes down. Why don't we talk about the hotels in Florida?

**Justin Ford** [03:24]: Yeah, so they continue to have record years. Vero, our oldest 10 years just passed the 3 million sales mark for the first time. Melbourne's ahead of it by a hundred or so thousand dollars. Equus is our first hotel to break three and a half million. It's about three point, almost 3.8 million in sales, and Equus should be bringing about a million dollars in profits through the trailing 12 months. Just a little bit under that, and Seven Hills, I'm sorry, a Vero and Melbourne, around 750,000 profits give or take each. So, very strong performance. But the real interesting thing about these properties, Bob, is the hotels that we have, especially Melbourne and Vero…. So, Melbourne's on eight and a half acres, and it's, and it's got about, I don't know, maybe 35,000 cars a day passing by in a booming market.

You know, Melbourne, Florida, Northrop Grumman, SpaceX lot of other tech going on there. Really a growth market. It's also a coastal market. Vero is also another coastal market, just a half hour south, and we're in a strip that probably is around 30,000 cars a day, and that's on 6 ½ acres, plus we own 2.1 acres next to it. Those properties now have become more valuable from a development perspective as well. Last week, governor, not last week, about three weeks ago, Governor DeSantis signed something called the Live Local Act, and it is radical. I mean, it dramatically changes real estate. You know friends I have like my brother has a piece of land we're talking about developing over here in Delray, and dramatically changes what you can do there as well.

But I'll mention what it does now to Melbourne and Vero Prices. So, if we were to convert the Melbourne, even though it's very profitable, this hotel, but if we wanted to maximize value, we decided that we wanted to convert it to apartments let's say. We would be, the zoning would allow us to do something, but not as many apartments as we can do hotel units, right? We have basically 238 hotel rooms that were running as like 140 suites. We couldn't do 238 with this new law. We might be able to do 238 departments, in fact, even more than that. So, what the new law does is it says we're going to take this affordability issue seriously, and what it means is if you have a property commercial it doesn't affect your neighborhood or my residential neighborhood.

But you have a commercial property and you want to develop residential there, and you're going to keep 40% of it affordable to people making 80% of the area median income, the AMI. So, if you're 80 area median income for let's say one bedroom apartment, those people make, let's say $40,000, and it's got to be affordable to people making 40 or whatever, 36 thousand. There's, there's a math there to it.

**Robert Irish** [06:16]: You do not.

**Justin Ford** [06:17]: Now, all of a sudden your ability to build, your density, how many units per acre, and your height restrictions, all that changes. What it says is your height restriction now becomes the same height restriction as any other commercial property within a one-mile radius. Your density now becomes the same density as any other property within a one-mile radius, and now, by the way, when we talk about affordable, that doesn't mean subsidized, it doesn't mean it has to be subsidized, it just means naturally occurring. But there's a term called naturally occurring affordable. So, it could still be the workforce, it could be retirees on a fixed income, and it could be people getting subsidies. It could be to anyone, but it's just you're pricing it affordably, right? Right. This is a dramatic change. I mean, this is something. I've been down in Miami. I used to go to conferences all over the country, and I spoke a lot of them, but I used to go to a lot of South Florida Business Journal in Miami use to hold these conferences. You go down there, there are about 200 people in a room.

All of them got nice suits. There's Swire, there's Seaberry, there are all these people building billion-dollar things, and they all get up there and they all go, oh, man, this affordability thing is a real issue. They've been seeing that for 10 years, and then you're out in the hallway, you're having a coffee with them. You say, well, what are you building? They go luxury. Every single one of them. No one doing anything, I'm part of a business group. We got invited down to Key West. We met with the mayor and some people they about, oh, the affordable housing, you know, oh, affordable housing, the waiters and the waitresses and the cooks. They can't live anywhere, right? They go, oh, great. Why are you guys giving permits to luxury? That's it, that's all they, so now this says, okay, this state law, it's an interesting law and it's kind of controversial, but it trumps a little bit local rule.

It says you have to do this, so it's now what this means in the practical sense, if I wanted to develop one of my properties myself, like for instance, we have been doing some vertical planning. In other words, looking at what we can develop just out of long-term planning, if we decide to make it more profitable when we sell in a few years or something. Or if someone wants to buy the development rights now. From a practical sense, we wouldn't go to any municipality, Melbourne or Vero, and try to ram the state law down their throat. You never want city hall, but you find out what they are in favor of. You look at the reality of this, and then with them, there's a good chance that you can now truly develop these parcels.

And a friend of mine was saying we were swimming by the ocean the other day. He goes well, then you mean, you know where the restaurant where Boston's is and all that in Delray, and he's looking, oh, you mean all these could be developed? I go, but only at the same height as everything else. You can see there's like, there are four stories, and only if they make 40% of affordable, and my friends, you know, very much a man of the people, and I go, and you know the only people living here right now are people who got tons of money. No one else can afford to live here.

**Robert Irish** [09:12]: True.

**Justin Ford** [09:12]: So, imagine if 40% or if you did 40% of now your waiters and your waitresses didn't have to travel two hours to get here, or your school teachers or anyone else. Listen, I don't want to get into the political thing. I'm not arguing for or against anything else. All I know is this is now a law and it has made a significant impact on how people are looking at land, and especially un-flagged hotels, independent hotels like ours in unimportant.

**Robert Irish** [09:39]: So, has this law generated a lot more interest as far as brokers asking you whether you want to sell these places?

**Justin Ford** [09:51]: It has actually, and we have for instance, someone gentleman just came down from the Carolinas the other day. He's a successful converter. He converts hotels into class-A apartments, and he's indicated a significant number, and he's having a meeting with the commissioner of one of these hotels, and so, you know, like I said, we're happy to own for the very long term specialized properties that are doing well. Like Melbourne has for a long time. Vero, Equus is coming out of the gate, doing great, but Bob, if they make you an offer you can't refuse, what are you going to do?

**Robert Irish** [10:23]: By definition, you can't refuse it.

**Justin Ford** [10:28]: And then, you know.

**Robert Irish** [10:29]: That's interesting, Justin.

**Justin Ford** [10:31]: Yeah, but we're, getting a lot of inquiries like that, and even Vero just as a hotel itself, Bob, a few years ago we were sitting down with brokers and they're like, oh, yeah, we thought you'd probably get like seven, maybe seven after this. People are calling us now. Everyone's talking north of 10 on this one. So, it's and this is all unsolicited. Inflation's a horrible thing but it also ends up being the real estate investors a little bit of a tailwind form as well.

**Robert Irish** [11:01]: Sure.

**Justin Ford** [11:02]: Because land's more expensive, building's more expensive all those kinds of things. So, these are interesting times, and I'm happy that in the meanwhile, come up May, those three hotels are still performing extremely well.

**Robert Irish** [11:14]: Well, that is great. I will look forward to next month's call and get a little bit more of an update on all this intense interest in these hotels. Let's talk a little bit about Governor Square. If you just want to touch on that lightly, and last time we talked, I think you said you were at 96% occupancy or something.

**Justin Ford** [11:34]: Yes. So, we had a change of management, and we dropped to about 88%, and so now we're released up again. Right now with pre-lease, we're just a little over 90. We're shooting to get back to about 98% by mid-May. We have new management starting within the next two to three weeks. We have an excellent new regional manager for that area. But there was a transition, there was a fall off on renewals, and so forth. So, we're going to get that back up by the end of May. Now we're about 90%.

**Robert Irish** [12:04]: And let's talk about Port St. John.

**Justin Ford** [12:07]: Port St. John. One tenant we had that was the problem tenant was his arcade that paid and then didn't pay, then paid that didn't pay, that was shut down by the authorities, and then was open again, these are people we inherited, and long story short, we had a couple of people in competing for a portion of this space, like 3,700 feet, and then we had another 1500 or something after negotiating back and forth. We had two new arcades competing for it, and this one arcade that we went with has six other locations. So, they're well established, and we told them, you can't be like the old arcade. We don't want blacked-out windows. Like who knows what's going on in there? So, they agreed that, but they took off all 5,500 feet I think, and this is going to boost our versus what our old rents were.

We're adding at least $35,000 to the bottom line. So, the market now, again, is about a hundred percent leased up. We're a hundred percent leased up. We have one small pet store that gave its notice. We're already marketing that space, but at the moment, we're, we're still a hundred percent leased up. We just finally put on the roof last month. I think I might have covered it last month. Yeah, it took a year, a year to get the materials. But it continues to perform very, very well, and we get a lot of calls on that one too. Plus we have one out parcel. It's sort of a water retention area, but you can build on it, and we get approached on that where some folks might want to lease it or they might want to buy it from us. So, there's a lot, there's still some untapped value in that in that grocery anchor space. Even though we're at a hundred percent occupancy in a growing area with, like I said, a development right behind us there's untapped value in that out parcel as well. So, we're just very, very pleased with the performance so far, and we're going to continue to explore how to increase the value with that out par out parcel.

**Robert Irish** [13:59]: Good deal. Let's get out of Florida. Let's go to Oklahoma.

**Justin Ford** [14:03]: Yep.

**Robert Irish** [14:03]: Tell me what's going on there.

**Justin Ford** [14:05]: So, Tulsa is Tulsa's at 95% had a meeting today, and you know everything's been taken care of. We're finally getting those meters connected. We had some 40 of the 91 units we're on common area meters. Now they are on, now everyone's going to be paying their electric, which is a big change in your economics and your tenant profile, and then that's so closely been stabilized for a while. That's performing very well. Elevate, we are at we have 79 newly renovated units occupied. We have 14 pre-leased, that's one of these numbers. We have five people still that are called the classics, the un-renovated, they'll be transferring in the next seven to 10 days. We expect to be at a hundred percent renovated.

Well, except for those five classic units in about three weeks, a hundred percent everything is done, all punch lifts, all the amenities. The only thing would be the parking lot, which we're going to schedule that once all the containers are off, and those last five classic units, which we can, which we can finish in about five weeks. But we have a fully renovated 126 units, 121 are fully renovated, plus all the amenities this month of May. And we expect to be at 90% plus occupancy by mid-June that's what we're shooting for. Now, because of that, we've already started our refine program. So, we bought that property for five and a half million dollars. We assumed the 3.3 million loan. The renovations have been about 6 million, all end on 126 units. I mean extension like we do in so many places.

And so we, we put 2 million down in equity, and then the, that 6 million in renovations, we put equity as well. So, we didn't use, we put equity. We wanted to put our equity fund capital to work rather than have it sit idle. We had some of it on short-term loans and all that, but we wanted to keep it to work, but now we're going to pull that equity out. So, instead of a 3.3 million loan, we're now gonna get either a seven or $8 million bridge loan while we lease-up, and that's gonna lead to a Fannie Mae agency loan after that. So, what that means is that we'll return three to $4 million, we expect. We already have a term sheet from one lender. We have strongly indicated interest from two others, including a regional bank I've worked with before, actually, and another local bank here I've worked with before.

So, we expect to close that in about 60 days. So, we have what's called a 1% a month bridge loan program. The most will borrow on this is going to be about a million dollars, and that would be the term, this term is just going to be 12 months, but most people should be prepared to be paid off as little as two, three, or four months. It's kind of like a bridge loan CD if you want to think of it that way, but it pays 1% a month. So, if you own it for three months, you made 3% of the three months. If you own you know, let's say it’s a hundred thousand dollars, you made $3,000 in three months and a hundred thousand dollars. So, that's the 1% of the bridge loan program. If anyone's interested in that, they can reach out. Just email me, Justin, at Pack’s properties. But that applies to that renovation right there. It also applies to ***[Inaudible17:13].***

**Robert Irish** [17:14]: 1% a month. I like the sound of that.

**Justin Ford** [17:16]: Yep. Yep, and the idea is that we only put this in place when we're doing these loans where we know we have another loan coming right behind it, and so we, we typically expect, these are going to be short term. They're going to be three to six months, but it could go as much as a year. The other one is Ascend. Ascend we're about, I would, I'd say we're about 60 to 75% renovated those renovations in some aspects. They're going extremely well. The inspector has given us some hurdles. First, he wanted us to have whole buildings passed before he gave us co-certificates about occupancy, and that interfered with our ability to move existing tenants to new units to create empty old units to renovate to lease up as we go. But he also was holding us back until we could renovate some interior exterior balconies, which we're going to demolish and rebuild.

**Justin Ford** [18:10]: There were things like this that popped up in the middle that they didn't tell us about in the beginning that are throwing some monkey wrenches at us. But we're working with the inspectors they are trying to be helpful, and we're resolving most of the issues. We expect that we'll have our first three buildings coed, and we already have six units, coed, and our first three buildings coed this week. Entire three buildings and then we're going to shoot for at least one building a week, sometimes 2. 1 to 2 buildings a week in the next three or four weeks, that's our goal. So, we expect April to be the last bottleneck month with this kind of thing, and then on may us to be going pretty strongly forward with lease up and so forth.

**Justin Ford** [19:00]: Right now we have a bridge loan there that, that's finding the construction, but even there, sometimes they're slow on their draw. So, we may use a 1% but 1% a month bridge loan program at Ascend as well. We shall see. Right now we're using it at Elevate, but we may use it at Ascend. The max will do it either one of them will be 1 million, so it won't be a very large offering. So, if anyone is interested in that type of short-term money that comes with a corporate and personal guarantee, again just send the email to [justin@pproperties.com](mailto:justin@pproperties.com).

**Robert Irish** [19:30]: Yeah, well, you're paying more in a month, and you can get it in your bank in what five years or something like that. I mean, it's great.

**Justin Ford** [19:38]: I got to give the banks to do, they're coming. They're finally paying on six-month CDs. They're paying three, 4%.

**Robert Irish** [19:44]: Cds. Yeah. I guess I'm talking about the sweep accounts in...

**Justin Ford** [19:48]: Oh no, they don't pay anything.

**Robert Irish** [19:50]: Yeah. 0.10, you know.

**Justin Ford** [19:55]: Yep.

**Robert Irish** [19:56]: Alright Justin, well, anything else to add before we sign off?

**Justin Ford** [20:01]: No, I think that's about it, Bob. It's been a pleasure.

**Robert Irish** [20:04]: Well, this is exciting. I'm looking forward to next month already. Great talking to you, Justin, and we'll check in with you again in about a month.

**Justin Ford** [20:11]: Thanks, Bob. Appreciate it.

**Robert Irish** [20:13]: Thank you. Bye.