December 2021 Update With Justin Ford

Bob Irish
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As one of our privileged members, you get access to real estate expert Justin Ford's monthly DealBook updates.

DealBook covers special situations with our network of experts in the kinds of private deals most people never even hear about.

Each month, I check in with Justin to see how his previous real estate deals are performing. Justin also discusses the latest trends in the market, what to look for when purchasing property as an investment, and much more.

You can listen to my monthly interview with Justin or read the transcript below.

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Transcript

Bob Irish: Welcome to our monthly call with Justin Ford of Pax Properties, our resident real estate expert. Bob Irish here, your *Infinity* liaison.

This will be the last podcast you'll get via your email. In the future, these podcast updates will be available at Justin's website, paxproperties.com.

Now, if you've been with us, you know that Justin has been an extraordinarily successful real estate investor. I brag about him every month, but the fact of the matter is throughout real estate booms and busts Pax Properties has never failed to produce a positive result for investors or missed a mortgage payment. With that said, Justin, it's great to have you back. How're you doing?

Justin Ford: I'm doing well, Bob. Thank you very much. It's good to be back.

Bob: How are things going at Pax Properties? How's the last month gone? I'm sure you've got some updates for us. I also know that you've been investigating some value markets, and some not so hot markets. I want to hear about that as well, but why don't we get an update on the current properties in Florida, and then we can move on from there. Does that sound like a good plan?

Justin: Sounds perfect, Bob. Should we start in Melbourne?

Bob: We always do. Let's go there.

Justin: All right, let's go there. Melbourne, the home of SpaceX nearby, Northrop Grumman, is an emerging technology hub on the east coast of Florida. Our property there has been a strong performer for six years now. We're coming back out of COVID and I think a few of our hotels – and the market as a whole – are sort of transitioning from a COVID market into hopefully a normal market once again.

In our last call, I mentioned during COVID we pivoted every way we could. We put a lot of groups in there – like church groups and other little groups here and there. We said goodbye to those folks, and now we're transitioning to other more traditional type groups like construction groups, small companies, that type of thing. The transition has been terrific.

Our sales manager is averaging around $25,000 in sales a week, which is about $110,000 a month… and that's just some group sales we're talking about. For perspective, her minimum quota is probably around $30–35,000 a month. She's really blowing it out of the water. She's bringing a lot of new groups and we're making that transition successfully.

COVID still is present in the sense that we just got our new pool furniture, for instance. We've updated our pool furniture, our gym. We were expecting all that stuff in about nine months ago. But I think you've heard of the supply chain issues. Haven't you Bob?

Bob: Yeah, absolutely.

Justin: We're still feeling a little bit of a hangover effects. We're getting the last pieces of new furniture in and we're up updating in the rooms. But all in all, again, the sales are growing. We're finally getting those pieces of furniture because every five to seven years you have to refresh your hotel, otherwise it falls into disrepair.

We're real excited about where Melbourne is at. Hopefully it's now entering that post-COVID phase. We got that new gym equipment, pool furniture, room furniture, and our sales managers are doing great. Plus, we're continuing to grow the top and bottom line. We like where we are with Melbourne right now.

Bob: Terrific. That's great news. I've been hearing about the supply change shortages. I just didn't know it extended to pool furniture as well, Justin.

Justin: Absolutely.

Bob: I guess it's all part of the same piece. Let's go to Tallahassee. Let's talk a little bit about the Baymont.

Justin: The Baymont is actually starting to improve a bit. The challenge in our two hotels in Tallahassee – more than the others – is staffing. For some reason, we're really having an issue there attracting and maintaining the line-level folks from housekeeping and maintenance and things like that. We're willing to pay more, we're offering more and so forth, but still. That's another challenge related to the whole economic shutdown and the slew of government checks and that kind of thing.

[All our hotels have been doing well during COVID, but the Baymont has been the only one struggling a little bit.] But we've gotten a new maintenance manager who's doing good things there. He's repositioned the dog park and the sitting areas, and he's creating some nice amenities. We've been growing sales there, again, for the past few months in a row. We're still making progress in the Baymont.

It's growing its top and bottom lines. We continue to investigate whether we're going to reposition this property as a senior living facility or micro apartment. We could keep it as a hotel as well.

If we keep it as a hotel, we're going to drop the Baymont flag that comes up in about 10 months from now. If we do that, the Baymont will be independent, like our other hotels.

Since our last three independent hotels have won Trip Advisor's top award every single year (they've been in existence five years, two years and one year), we like our prospects if we decide to go independent with this. But right now we're looking very, very strongly at the senior living market. Those rents can be insane. We think that we can provide real value for those folks and a really good place to live. We'll know more about that soon, but we like the way that Baymont's trending right now with a growing top and bottom line.

Bob: Great. Let's talk about the Renaissance. I'm particularly interested since on our last call you talked about the property being marketed, or at least offered to select buyers. Where are we with that?

Justin: We actually did market it. We listed it with a major brokerage company, and they've been marketing it. While they're doing that, we're continuing to focus on improving operations and so forth. Again, during COVID, you had some non-payers of rent and that kind of thing; some for legitimate reasons, and that's always fine. You can always work with those folks, and they also have state resources to help them. But there's always a small handful of folks who take advantage of the situation.

I mentioned last time we were going through some of the eviction processes, on about 11 units out of 168 total. It wasn't that big. We worked most of that process through.

Right now, we have 165 occupied units out of 168, and we're pushing rents by about $50. As we do this, we continue to make the property more valuable for ourselves in the future whether we hold it and just put a very low long-term fixed rate loan on it or command a better market price should we decide to sell it.

We expect there's going to be a call for offers this week or early next week. It should be interesting to see what comes in. By Christmas we'll know whether we're going to wrap this thing up with a bow and sell it, or whether we're going to keep it and continue to make tremendous cash flow and return a big chunk of investor capital via low-cost refi. We'll know by our next monthly call, Bob.

Bob: Great. As a reminder, that next monthly call will be on your website, paxproperties.com.

We typically like to get these updates out in the first week of the month, so you can check in on that website around the first week in January and hopefully that update will be there. Let's talk about Seven Hills.

Justin: Seven Hills is having the same staffing issues we were dealing with at Baymont. We're growing the top and the bottom lines. We had a big football game weekend a couple weeks ago, but it was very hard for us to have enough housekeeping staff. That was a real challenge for us. In fact, it actually got us a few negative reviews.

We were number two in that market for a very long time. Now I think we're four or five at the moment. We're going to recoup that. We're going to get back to number two and eventually back to number one. That's been a real challenge. The staffing issue is if you don't have enough folks, it's hard to deliver the level of service that you need, but we're working our way through it.

Again, we got a new sales manager there. She just met with the mayor of the city and the mayor came personally to thank us after we opened the hotel. They're big fans of ours and we're building up a lot of new group sales there.

Our top and bottom lines are growing there. We expect Seven Hills to be our top performer, and the budget for 2022 reflects that. We're looking for around $3.5 million in sales in 2022 with a bottom line of over $1.2 million. We expect that Seven Hills will have a great 2022. So far, it's starting to shape up that way as we bounce back from the pandemic.

Bob: Terrific. Well, let's wind things up in terms of updates with Ocala and Equus.

Justin: Sure. Since we finished our renovations in June, Ocala's been doing extremely well. Our sales manager there is a gem. She's selling like the Melbourne sales manager, with about $25,000 a week in group sales. We're going to recognize $180,000 in revenue this month. We're operating efficiently there as well. We're bringing 45–50% of that to the bottom line.

The Ocala property has just bolted out of the gate *very* strong. It's been recognized in the community. It's rated number three in the market right now. I do expect we'll be number one before year end.

This is going to be our second top performing property in terms of revenue. In 2022, we expect about $3.1 million in sales, and about $1.1 in EBITDA (earnings before taxes, interest, depreciation, and amortization). So far, we're heading in that direction, so things are looking pretty good at Ocala.

Bob: Well, that is great to hear Justin. Now I understand, and I think most of our listeners have experienced or have seen their local real estate markets have a lot warmer than they have been, if not downright hot. But tell me where you're going now to look for value and tell me where you're going to be investing your money and where other people might want to invest their money. What are you doing right now?

Justin: Well, we always look for a combination of value and growth. What happens is when you're in a market that's growing a lot at a very fast pace. Of course, it's hard to find value. When somebody's selling at a deep value, sometimes that's because there's very little growth. There's often a tradeoff.

If I have to lean one way or the other – I don't sacrifice one or the other entirely – I lean more towards value. When you're a value investor at this stage in the cycle, ugly is beautiful… or at least what most people think is ugly.

You buy this beat-up old building, for instance. It's falling apart, but you have a vision for it and then you do what's called value add. You take on responsibility, you do the work, you turn this ugly duckling into a beautiful swan, and then it becomes a very successful property. That's pretty much what we've done all the way, dating back to when we turned Melbourne, the former Chateau Ghetto, into an award-winning property on multiple levels.

Right now, the markets that are the least headline newsworthy – the least sexy markets in terms of quick profits in real estate – are intriguing us. We know that everyone's flooding into Texas, everyone's flooding into Florida. We own lots of stuff in Florida. We bought stuff in the Midwest recently. We're doing extremely well with that.

But I'm actually heading to the snow belt in the winter. I guess I'm a glutton for punishment, in the former rust belt. There are some interesting markets around Detroit, Cleveland, Indianapolis, Columbus, and Ohio.

These areas don't have the phenomenon of the elephant stepping in the small pool and swishing all the water out yet. But that's that of course is what's going on with all that California money coming in… all that New York money coming in. All the money that's used to paying $500,000 a square foot rushing into the Midwest; it's rushing into the Southeast and turning prices that used to be $80–100 a foot into $200–250 seemingly overnight.

We think there's still real value in the better neighborhoods in the markets that I just mentioned and some other markets we'll be traveling to, because people always need a place to live, and they always want a quality place at a good price. We believe we can find those there.

We can find that in the markets that I just mentioned, and a few others like that, where we can produce 8-9% cash on cash yields and double digit returns of 12–14% not counting appreciation. If you get market appreciation – which we know is basically up to the gods – that turns your good investment into a great investment.

That's where we're looking, Bob. We're looking where everyone else is not going crazy right now. We're looking at the better markets there, places that are not going to fall off the face of the earth. Again, we're looking in the markets that are stronger… We're looking at markets that are more interesting… We're looking in places that have art, restaurants, culture, entertainment, and a growing, vibrant, young professional class.

We'll find these places in markets that are a little bit more neglected now. We think we're going to be able to benefit from deep value and reasonable long-term growth going forward.

Bob: Wow. That's pretty exciting stuff, Justin. I know that if folks are interested in investing alongside you or seeing exactly what markets you're getting into and even specific properties, they can find out more about all those things by going to your website, paxproperties.com.

You'll need to log in if you haven't already done so, but that'll get you in there. Justin, anything else to add before we sign off?

Justin: Well, I wish you a Merry Christmas Bob, a happy new year, and a great December and happy holidays to everyone listening.

Bob: Thanks for the nice sentiment. I wish you the same, Justin. I'll look forward to speaking with you in January [on the Pax Properties website].

Justin: Same here, Bob. Thank you.