BOB IRISH UPDATE TRANSCRIPT OCTOBER

- **Bob Irish**

Bob Irish here with our monthly call with Justin Ford of Pax Properties. Today, as usual, we're gonna update you on all the standalone investments in Florida and keep you abreast of the underlying investments in the CAP Plus Diversified Income Fund. I say it every month, but it's important, especially for our more recent investors, 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, how are you? It's nice to see you again.

- **Justin Ford**

It's great to see you, Bob. How are you?

- **Bob Irish**

I'm doing just super back in Florida.

- **Justin Ford**

Oh, you are? Oh, good. Well, fantastic.

- **Bob Irish**

Yeah, back in Florida. And our timing couldn't have been more perfect. We left on a Wednesday, and it snowed on Thursday. So yeah, we hit it just perfect.

- **Justin Ford**

But you're a skier. You're a skier, so you might have benefited from that snow.

- **Bob Irish**

Well, the lifts don't actually open till around Thanksgiving.

- **Justin Ford**

Oh, really? Okay, okay

- **Bob Irish**

Yeah, there wasn't enough snow to ski, but driving through, we've left there before in a snowstorm, and it's no fun driving in the snow. I did that too. I had to stop and buy chains and all that, yeah. I mean, forget it. So anyway, I'm living right. I'm living right. Let's get to our update. I think the theme for the last couple of calls has been stabilized in 25. And I think that's kind of where we're still at. Am I right?

- **Justin Ford**

Yep. Yep. And we're making progress on that front. Why don't I just start from the south and work my way?

- **Bob Irish**

Yeah, let's start. Let's start in Vero Beach. Tommy, there was that deal that the guy was going to buy the hotel and there's a whole…. What's been going on there? What happened there?

- **Justin Ford**

Right. It was going to be a lease and then a purchase. So we went through the whole thing. And long story short, as we got down to the finish line, he was having issues with getting the funds together. And the deal was creative enough that we said, you know what? Thanks, but no thanks. We just took a pass. And so we're in good shape because that hotel is just in beautiful condition. It's our longest owned asset. We've had it over 11 years now. Market's slow in Vero. And in a lot of the hospitality industry, the upper end hotels are doing okay because they continue to get business travel, but the mid-scale and economy slash mid-scale, which depend more on leisure travel are suffering a bit. So we're slow, but we continue to beat our index by a little bit. And so we do okay, but we're looking forward. It would be nice to have a recovery in 25, but even if it doesn't, our cost basis is low. An established team there. So the status quo is good. And we think that we could have a pretty good 2025 as well.

- **Bob Irish**

Well, we are moving into the season down here. And that's so yeah. Okay, so we've covered Vero. Why don't we go up north and talk about Tallahassee?

- **Justin Ford**

Well, actually Ocala is in the middle of the state. Okay, I'll stop at Ocala.

- **Bob Irish**

Geographically correct. Let's go to Ocala first.

- **Justin Ford**

And so Ocala, you know, is, that's our best operating hotel. And it's, so the status quo ante, and ante was good. So it's always number one, number two in the market. It's highly profitable. It's in great condition. It's in a market that's booming. So there's not much to tell in the best sense of that phrase.

- **Bob Irish**

So Ocala's doing well. What didn't it used to be a quality inn? Yes, it was a quality inn.

- **Justin Ford**

We paid money to drop that flag. Yeah. About $75,000 to terminate that agreement. And I think that was the right choice. We've been doing really, really well at that property.

- **Bob Irish**

Well, clearly it's been doing really well. Can we go to Tallahassee now or do you want to make another stop?

- **Justin Ford**

Yes, we can. Yes, we can. Geographically, Port St. John is right near Ocala, but we're going to come back to that when we talk about the fund property. So we'll stay outside the fund. So in Tallahassee, we have those two hotels that we're converting to apartments in the wake of COVID, yeah. And one was formerly the 7 Hill Suites, which we took from number 62 in the market, the lowest rated hotel to number one, and then COVID hit like the next day. It was like misery after putting all that money in and everything else. So, but now we're on the verge of turning it into the number one studio apartment community in the city. And we've really made good progress there. We have a good team there. We just got noticed that we should get COs, which are the Certificates of Occupancy, which lets you now lease the property out on three of our four buildings this month, including three of our four residential buildings. We also have a lobby building with a restaurant and a wine bar, a self-serve wine and beer bar. But that, we should have our first residential building CO this coming week. The next one is about 10 days after that and the third one at the end of November. And we're shooting to get the fourth one in December.

That's good news because in January, a lot of people moved back into Tallahassee, whatever gave up their previous student or government related housing or whatever it is. So we're looking to capture some of that market. The big market is July, August for the beginning of the year, the academic year. But the time is good to capture some of that market, so we're very happy about that. And when we move across down at Monarch, Monarch has basically, let's call them three residential buildings, building A, and then building B is like split into two. But building A should be CO'd in early December. And so building A will be able to, that building at least should be able to capture some of that lease up traffic for January as well. And then we expect to be completely done with SWAN by the end of this year. And Monarch to be completely done four to six weeks after that. And again, we'll be leasing up as we go, because as every residential building is ready, we lease up even while we're finishing the others. So those two are fitting the theme of stabilized in 25.

- **Bob Irish**

So that's great news. The pivot is almost complete.

- **Justin Ford**

Right.

- **Bob Irish**

Great, so let's talk about, let's go across the street. Everything cool at Renaissance?

- **Justin Ford**

Yeah, so Renaissance is the apartment's equivalent of the Equus on our hotel side. You know, it's our best performing apartment. It's trailing 12 revenue. I think it's like 1.25 million, which is at a peak. We have really good management there, 95% plus occupancy. And you know, they talk about rents kind of leveling off in certain markets. We've continued to just grow rents there. People want to live there. We were sort of a little moderately priced initially a couple of years ago, but we started pushing rents and it's really strong. Our smallest one bedroom there, I believe we get almost $1,100 a month base. And then you add water and electric, cable and TV, you're probably at $1,350 to live there. And that's why I like that our units are going to be 1,015, including all utilities and cable and internet and all that stuff. It's just really competitively priced. So Renaissance kind of helps prove our concept for our studios, while at the same time, it just does really well as a property producing. The tenants are really happy there. We have a really good manager. And financially, it performs really well. And we have great debt on there. We got 4% fixed for another, I think it's six years or something. So Renaissance is doing well. That's great.

- Bob Irish

That's great. Well, let's go to Oklahoma. Is everything okay in Oklahoma?

- **Justin Ford**

Everything's A-okay in OK. Apex is our longest-owned property there, a little over three years, 91 units. And again, that's pretty much a non-story in a good way in that it's consistently right around 95% occupied, good collections, well maintained, We were going to finish the electric. We're going to leave it sort of where it is. That's a long story, but I've mentioned sometimes before. We realized that if we finish it and then self-meter it out, it actually is, the return on it is going to be a little bit negative for us. And it's going to take some time and permits. We're going to have to inconvenience tenants. So we're going to leave that as the play for the next buyer. If we'll sell that as an opportunity for them to have a little value add. Yeah, APEX is at the top of its game to use a sort of play on the word APEX.

-Bob Irish

How about Elevate?

- **Justin Ford**

Elevate also doing well. We stabilized that in the first quarter and it's around 94% to 95% occupancy consistently. When you move from just finishing a large construction job to being fully stabilized, Now, when we're in our seventh or eighth month of what's called stabilization, now we get to really hone down on fine-tuning our operations. Before, you're still dealing with some lingering issues with construction, the final pipe that you saw to fix or whatever it was. Now, we're just focusing on bringing down our operating expenses. We're going to try to trim them by 5% to 7%. I had a meeting on that today, but it's doing well. It pays for itself. It's had good high occupancy. It's a beautiful asset and a great location. So it's doing well and we expect it to do even better in the coming year.

- Bob Irish

Oh, that's super. So let's talk about Ascend. I know there've been some changes going on there and there've been some issues. What's the story at Ascend?

- **Justin Ford**

Yeah, I mean, Ascend, it's kind of the same idea that when you go from construction to stabilize, there's a shift. Now you can focus on ops. And we realized that our manager during construction was kind of sloppy of how it was leasing out to people. And so we had a good contingent of tenants that were not really desirables. And so we've been kind of cleaning them out. So even though we've written like something like almost 40 new leases the last three months, we've also dropped around 20 people. We've let non-renewed some, some we've evicted and a handful have skipped and we're okay with that. So we're increasing. We're increasing the quality of our community, the tenant base, and soon we'll start to see where we've been around two thirds occupied there since we finished construction. Well, we went one third, we went to 50, then 60, now we're high 60s. We expect to start to really get into the 80s and then the 90s at the end of this year, beginning of next year. Again, so it's a good candidate to be stabilized in early 25.

- Bob Irish

Beautiful. Okay. So let's go to Port St. John

- **Justin Ford**

Right. So let's talk retail. So that property, we had a lot going on there and it's been a real education and we've spotted some real opportunities. On the one hand, we had a one acre portion of the 10 acre property on the major highway there, US1, and that serves order overflow. And I've been looking to develop that. So I hired an engineer $5,000 -$10,000, do a few studies. Can we move that elsewhere so that we can make that a rentable space? And the answer is yes. So we found that out. And then I gave those studies and we had the engineers do some conceptual plans for like a quick service restaurant and I think a bank and something else. And we gave that to a good retail broker, referred by a friend of mine who's been in retail for a very long time. And they've been out there marketing, we got a couple of good offers from some major brands on leases. But now we got the offer, which I really want, someone wants to buy it from us. And they'll take care of the expense of moving the stormwater drainage capacity. And they'll do the prep work to develop the land so you can go vertical. So we're negotiating with them right now on possibly selling, cutting off that outparcel, making it a separate property and then selling it.

It's going to be an intricate real estate deal because you're going to have to involve the county engineers who's going to have to sign off on, create a separate drainage easement, for instance, all these fun things that only real estate guys get excited about. And then at the same time, of course, we had Winn-Dixie. Winn-Dixie is like a C plus level supermarket, but it's a really good one in that they already went their bankruptcy seven or eight years ago. So, what's remaining in their portfolio, 400 or 500 stores, whatever it is, is good. And this, Winn-Dixie, was really good. It was solid. It had strong sales per square foot, which is a major metric in that kind of business. And so, Aldi, who's a new up-and-comer, they're a small store that does a lot of self-branded stuff that they sell. And I think they do some bulk as well. I've never been to one, but I've seen them. And now they bought whole Winn-Dixie portfolio. And now they're converting this one to an Aldi's. So from 49,000 square feet, roughly, that Winn-Dixie occupies at the moment, Aldi's will occupy maybe 20,000 and those sublease 28,000. So we were going back and forth. Now I'm going into these details because I know that some of my investors, many of whom I know personally, they enjoy this kind of stuff like I do, because it's just interesting. So the original lease was written in 1986, Bob, 1986. We got like photostatic images of these things from like microfiche or something, you know? And the language is like, you know, it's so vague and so whatever. But we had something called a percentage rent in there. So Winn-Dixie would pay us a certain amount around, let's call it a quarter million dollars a year, more or less. And then if they got to a certain amount where 1% of their sales was greater than a quarter million, we could take that percentage instead. So if they get to 30 million in sales, let's say, then we take 1% and now we're making 300 a year instead of 250, right?

Now the percentage rent meant nothing for the last 40 years, of course, because when they started out, they were probably doing four or five million, right? But inflation over time, they're doing 10, then they're doing 15, then they're doing 20, then they're doing 21. And now they're bringing in all these with a sub-tenant. They could be hitting that benchmark now. So they wanted us to give up the percentage rent. And I said, okay….You give us a percentage of your subtenants rent. We were negotiating that whole thing. So finally, long story short, they're like, you know what? You can keep the percentage rent. But I know they're investing a substantial amount to put this new property in there. It's a seven-figure investment. So it's going to be really, really interesting. And they want to extend their terms. So they have seven years remaining, where they have an obligated term of seven years. Then they have two five-year extensions. Up to that.

They want their obligated term to be extended from seven to 10, which is really good news for us. But in exchange, we're going to be looking for some consideration. And so we're in the midst of all that. And then one last development, we have a vacant space right next to it. It's 5,800 square feet, right next to the Winn-Dixie. We leased it out to two arcades. Very bad idea. The first arcade we inherited and eventually we got rid of them. We leased out to another one, then we got rid of them. Arcades are not a good idea. But I found out that, again, I went to the engineers, because I was working with civil engineers. I said, hey, guys, look at this. Can we bump this out from 850, 800 to 10,000 square feet? And they looked at it. There were some considerations about the service road in the back, but the answer was yes. And that was just a quick answer. It wasn't even a big study. I thought we could do it, but we got it confirmed. Now, we knew that Ace Hardware was looking at that space, and they found it a little small. If it was at least 8,000 feet, they would have considered it. So now that we know that, we're putting that out to the brokers as well, and we're gonna sell that possibility. We don't have to do the work, we just sell the possibility.

So if someone likes that space, it's a 5,800 as much as 10,000, if you like, And now we can get a significant national or regional brand in there. So when you look at the out parcel, maybe becoming a major brand, Windex is going to all these plus a significant subtenant. And that little space may become a significant regional or national brand, you're really upgrading the profile of that property, plus the income all around, of course. So it's a lot of interesting. It's been a learning experience. It's been my only, not my only, but my only shopping center. We've had a few restaurants and our hotels and stuff like that that we've leased out. So we've had some retail before, but this has been a real education and it's been a lot of fun. And what makes it fun We've been making good money the whole time. And again, the debt is cheap. It's like four and three eighths. We got another couple of years there. So yeah, so things are going well there.

- Bob Irish

If you were to sell that out parcel, I mean, that would just drop straight to the bottom line, right?

- **Justin Ford**

Exactly. No, 100%. It's going to cut. Well, I'm not going to say anything now because I'm not sure where our price is going to be given all the work they have to do, but I think it'll cut our cost basis probably 10%. Significant, significant.

- Bob Irish

Last call, Justin, we talked about the mortgage, the first mortgage on Ascend…And I knew last month you said you had a couple of million dollars left there. Has that been sold out or is there anything left?

- **Justin Ford**

Well, since then, we've had a little more than a million come in. So we have a few hundred thousand dollars left. And again, as we stabilize Ascend and then if interest rates drop, be refinancing out of this within a year to a permanent bank. So whoever's interested, there's at least four or 500. I'd have to check the exact number that's available at this moment. And again, it may be a short-lived investment. Of course, it could be an investment that goes the whole term, which is as much as three years, or I think it's two and a half years at this point. But yeah, so there's a possibility there for people who are interested. Again, just send me an email. High yield, first mortgage, pays 8 to 10% is collateralized, secured, and also personal and corporate guarantees. And we still have just a few spots left for that one.

- Bob Irish

Well, that's getting even more attractive now that there's been a rate cut and people with high yield savings accounts are down, money market yields are down. So this is looking even more attractive than it was several months ago.

- **Justin Ford**

Yeah, no, I agree, Bob.I very much agree. For you to get 8 to 10% on a first mortgage It's going to be, you know, it's going to be rare for you to find that kind of thing.

- Bob Irish

Well, Justin, this has been a great update. Do you want to add anything else before we sign off?

- **Justin Ford**

Nope. Just have a fantastic November and I look forward to speaking with you in a month.

- Bob Irish

Okay. Sounds great, Justin.

- **Justin Ford**

Take care. Thanks, Bob.