

## BOB IRISH MONTHLY CALL- APRIL

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 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. Justin, with that said, how are you?

- Justin Ford

I'm doing well, Bob. Thank you very much. How are you?

- Bob Irish

I'm doing great. I understand that you are at the Monarch in Tallahassee right now, yeah?

- Justin Ford

Yes, I am. In our model unit. There's a little kitchen right there. And anyhow, we'll show you pictures later. Last month we spoke, I was in the Swan, which is also in Tallahassee. These are our two conversions. And we'll talk about that very shortly.

- Bob Irish

Yeah, let's talk. Let's go right there. I want to hear how the pivot's going and how the conversions are going. Why don't we start with where you're at right now, Monarch and then we'll transition to the Swan.

- Justin Ford

So the Monarch was a few months behind the Swan as far as the conversion. The Monarch is a 135 unit hotel. We bought it as a Baymont. We operated successfully. But when we switched to the Flag right then, right at that time COVID hit. So the property never recovered. Right down the block from here there's a hotel that converted to apartments and did very well. They're full now. And our units are bigger and nicer. You know, we have three centimeter quartz countertops, stainless steel undermount sinks, modern European style cabinetry, wood tile plank style floors, all this kind of stuff. We have much better amenities. We have a fitness center where they have none. And our prices are actually a little bit under theirs with a superior product and basically even a little better location. So we think there's going to be a very strong product. As far as renovations go, however, we're also making really good progress right now. We had to bring in a utility pole to separate the power between the two buildings. So there's some major stuff that had to accomplish. Now we're there. And we think we're going to finish our first residential building towards the end of May now here. So this, at that point, we'll be ready to start leasing up while we finish the second residential building, which is exactly what's happening right now at The Swan. We've already finished the first as we discussed last month.

- Bob Irish

Yeah, sure. Okay, let's talk a little bit about the Swan.

- Justin Ford

Sure, so we finished that first residential building last month and we were fully leased within a couple of weeks. We had some people transfer from another building of ours, but we've even leased out the model unit. I don't know if I remember, I told you last month that when I come here, I stay in the model unit and then I get, I'm out of there by you know, I'm usually out there by eight in the morning, but I'm sure they're there by nine. And, uh, and, um, actually I'm out there about five in the morning sometimes, but regardless, I, um, now everything's full, everything's rented and we're waiting for the second building to be done. And that building was supposed to be done a week ago and then this week and then all this stuff. And it's all that final phase, because in addition to the interior renovations, we have some major electrical stuff where we're bringing new power to the building. So you have a new main service panel, then you have the sub panels, the main ones in the electric room that serve all the individual units, which also have their sub panels.

So there's a bit of a heavy electrical construction going on there with a lot of different types of inspections that's been slowing us up a little bit. But we expect to pass the electrical release tomorrow, then the day after that, the hot check, and then the day after that, temporary power. So that's what we're shooting for right now. We have seven tenants ready to move in who've paid their deposits on the first. We're going to have to give them some sort of consideration to move them back perhaps a few days. And we have another one ready to move in the week after that. And we haven't even had a model unit to show, but yet people show up and they see how beautiful the property is over at Swan with amazing amenities, even better than here. This is a really good property here at Monarch, but Swan is like mini resort style. And even online, sometimes we show it on the iPad, just the units and the people are sold, but we can walk them down to one of our buildings that are finishing construction and show them one of those units as well. But the demand is really strong. You know, when I started, when we started this conversion, you know, I did the underwriting and I was confident it would work, but I was really like, you know, but we're all studios, all luxury studios But all studios, I thought. I thought, well, we're all luxury studios. It's a big college town. There are retirees as well. The types of market that fits the studio model. And I've got to tell you, I've never been more confident when I see the people come in. And we created a private gated community now. And I'm very excited. It's really just a question of inventory. So we'll have our second building, uh, hopefully Monday, but you know, God's willing certainly by Wednesday and then the building right after that, just a few days after that, maybe a week at the most in the building after that, perhaps a week after that. And we're done. We should be done by the end of May, but we should not be slowing up with leasing. Um, by, by the time we get our second building early to mid next week. So we're a little, kind of frustrated that everything's pushed back a little bit, but we're also extremely excited. The demand's there, the property's beautiful, we have really good management in place, so we're just chomping at the bit, ready for them to open the gates so we can run.

- Bob Irish

That's great news from Swan. Listen, let's come back to the Swan at the end of the call. I understand there may be another investment opportunity for folks listening, and that's very exciting. So let's leave Tallahassee now and head down to Vero Beach. I understand that the Vero Beach Hotel is under contract. Has there been any earnest money paid yet?

- Justin Ford

Yes, there has. So it was very interesting. So they paid earnest money and a decent amount, a quarter million dollars. And now they're going through an SBA loan application process, which takes 60 days. So about 45 days from today, give or take, we'll know for sure if they pass at that point, they release the 250 goes hard, meaning non-refundable. Plus they had another hundred and then we close 30 days after that. So the next 45 days, if they fail to get their loan for any reason, we're fine. We're operating well. Um, you know, our, we had a slow year last year, the market, the Vero market, even though we kept up with it and exceeded it, uh, often and overall by, by a good low margin, um, that market's coming back. So we had strong, as I told you, the of February and March. And our April's about comparable to last year, but we think it's going to pick up going forward. So even if it doesn't close, we're just going to continue to grow, recover our previous high numbers. And the property's in great shape. I mean, again, just today, about three hours ago, we got notice. We won the TripAdvisor's Travelers' Choice Award. That's the highest award. And it puts you in the top 10% of hotels worldwide as rated by their guests. It doesn't mean we're up there with, you know, whatever, the Shangri-La, you know, Renaissance, whatever it is. But what it means is that when people rate their hotels, we deliver more value to our customers than 90% of the other value hotels in the world. And we're serving the mid-market there and we're doing it well. I think it is. It's the third year in a row we've won that award at Vero, and I think it's the fourth out of the last five years. And that's a property we've owned for 13 years. So we haven't let it grow bags under the eyes or gray hair or anything. We've kept it beautiful. And so we're happy to own it if that's how it ends up being. If we do, there's a possibility we may be able to sell it for even a better price than what we're selling now, and we're selling at a good price now. We're pretty content with where we are right now in Vero.

- Bob Irish

Well, that's great. I look forward to talking to you next month, and hopefully that loan comes through. Let's move on to Ocala and talk about Equus. It's always good news when we talk about Equus.

- Justin Ford

It really is. Not only did Equus explode in its NOI recently, for years it was hovering around a million dollars in net operating income, and recently it passed 1.3, and I think it's close to 1.35, you know, so really roots in a way, but like a third, you know, really, really impressive. So we've always had a great product. We won the award. I think they're four or five times in a row. Now make it six because today, right after I got the Vero notice, we got the Ocala notice we won TripAdvisor's, uh, uh, TripAdvisor with a traveler's choice award, uh, putting it in the top 10%. And it's, and that's one of my favorite hotels. It just gorgeous. Uh, we, we, really, really applied a lot of imagination there. My sister did some wonderful designs to the interior there. And our team there is amazing. The woman who manages there has been there from the beginning.

She, she even came with the hotel. She was with the previous one, which was, which was, and, uh, we have, we have people who've been there for six, seven, eight years. So we have a great team. We created a great product and, and, uh, the community that our guests love us. So, and, and it's showing in our financial results as well. So we're, We're very happy with what's going on at the Equus Inn.

- Bob Irish

Wow, that's great. Before we leave Florida, let's touch briefly on Renaissance. The news there is always good as well.

- Justin Ford

Yeah, no, Renaissance is good. It's about 92% economic occupancy, so that's a good solid number. We'd like to try to get 95-96, but in the case of Renaissance, actually, I think we're going to be hitting 95-96 for a while. We had a couple of three bedrooms. We have 32 three bedrooms. We had maybe 10. Where we weren't moving as fast as we wanted to. But the great offsetting factors, you know, our management there is also just absolutely superb. And we've been pushing rents. And that's really, really important because, you know, we've been hit with inflation. We've been hit with so many other things, you know, higher insurances, I told you tripling and real estate taxes sometimes go up after we do our improvements, they usually do, and just general inflation. So to push rents, just just to even keep up is important. And we're able to do that. Because again, it's a great product. We recently added it there. And so Renaissance also posted recently, its record. I know why I think a little bit about 1.25. And so, again, good news of Renaissance and the high rents now I believe in this is we're going to soon be combined with significant occupancy. 92% is a good number in this market. It's about where most well-established communities are, but I think we're gonna get to 96, 97 within a month. We have a lot of pre-leases and applications, so high rents and a high occupancy tends to turn into very good results. We expect continued good results from Renaissance.

- Bob Irish

Yeah, okay, great. Hey, let's talk about the investments in the Diversified Income Fund. Let's go to Oklahoma. Let's talk about, where do you want to start? You want to start with Apex?

- Justin Ford

Yeah, let's start with Tulsa, and that's our oldest, longest-owned property there. I think we bought it about four years ago, I believe. And that is consistently in the mid-90s, and it continues to do so. They continue to keep their operating expenses very close to or within budget. The problem there is we did keep rents a little too low there for too long. Our new management has been with us a couple of years, but he's really great now. And now we're starting to move rents there. You know, a lot of markets after rents went up for so long, shortly after COVID, they spiked like, I don't know, 30, 40%, some markets over the course of about four years. You know, it sort of teetered out. We continue to grow rents in most of our communities and at Apex we're now continuing to do that. So again, high occupancy and slowly growing those rents again, especially on the renewals, but even on the new, on the new rents as well. So really it's just, it's a good news overall at Apex.

- Bob Irish

Great. Let's talk, let's talk about that 146 units at Ascend. What's going on there?

- Justin Ford

If you don't mind, I'm going to jump to Elevate first.

- Justin Ford

Elevate in Oklahoma. 126 units. That one we reached first read stabilization a little over a year ago. And that one was in the nineties for a while. And now it's consistently averaging in the mid nineties. So it's mid nineties. Again, we're pushing rent a little bit. We can push it really hard there. The market is just kind of a little bit, a little flat, but we're pushing rents. They're probably Oh, 20 to 25 bucks a unit, which is, you know, two and a half, 3%. So we're getting high occupancy. Our operating expenses are a little higher than we want because that place had old plumbing. We replaced so much of it underground and so forth. But every now and then it pops up again. It's like playing whack-a-mole. You fix this one, that one pops up. So we have to go dig underground down then and replace some major pipes. But overall, it's producing good returns. We're going to be seeking to, it's not at its budgeted numbers yet. We think we'll We're going to start hitting our budget at NOI's in the late second and early third quarter. And at that point, we're shooting for a refi of Elevate actually to close around August. So we're really wanting to start to hit our numbers actually around May and June. We're doing well and we're looking forward to a refi by August.

- Bob Irish

Well, let's talk about Ascend.

- Justin Ford

So Ascend was the last property in the portfolio to stabilize. We finished renovations about a year ago, the major renovations. We started leasing up, we did okay, and then we hit this plateau. We brought in a company to help us lease up and we did not work well with them in that we brought in too many leases that were not qualified. So we suffered from that. And we ended up evicting a lot of people that were brought in. So we were basically our effective economic occupancy was stalled around 70% for a while. Well, we took a big action on that in November. We sent out one of our guys. We applied a lot of our efforts there. We hired a new manager. We're very careful about all that. And before you know it, we were in the 90s by February. And for the last month, we've been around 99%, actually 99%. We have one unit left, and we had to have someone go out there. We had a lot of our construction stuff there, which we're selling off some of the leftover stuff. And the reason that's not rented is we got the last few pieces we're selling off of that. So we're basically 100% occupied there. Our collections were poor there, as I said before, when we were evicting people. Recently, collections rose up again, meaning problem collections. Typically, they should be 1% to 2%, but they've risen to more than 5%. But again, we're getting that down. And those problem people, they stemmed from that period I was talking about before. Since the new management, since we took this new initiative

in November, all those tenants are showing themselves to be responsible, good tenants. So we really like where we are there. We put on a good mortgage there. It's a bridge mortgage. It's a Pax Properties first mortgage where investors are making 8% the first year. We'll make 10% in the second period if we go to the extension there. That property could be also refied before the end of the year. We're going to see where interest rates go, but we just not only hit, you consider 90% to be stabilized occupancy. Most markets right now are in the 92, 93% occupancy range. 95% is a really good number, but 99 with one unit left, once we clear the stuff out and sell, it's 100. That's exceptional. So we still have work to do, but it is looking very promising. Great team, good occupancy. We're going to trim the expenses more. We think we'll be in a good position to put some good competitive low rate financing on that by the end of this year or early next year.

- Bob Irish

Great, Justin. Before we get to the investment opportunity we mentioned earlier, let's talk about Port St. John. What's going on there?

- Justin Ford

Well, okay. That's good, Bob. You know what, I'm going to pause and give you another subject that I didn't mention to you, but I just wanted to talk about this. We've made this great progress on insurance. I forgot to tell you in our discussion before this phone call today, but the, um, the, um, I talked about, I think it was last month or the month before I went into detail about, you know, sort of the four headwinds we, we, we had, or the four horsemen of the real estate apocalypse, if you like, you know, the rising insurance rising interest rates and we're talking about, you know, doubling, tripling insurance, interest rates have doubled, uh, you know, inflation up and real estate tax in many cases that would go up significantly as well. So we're facing all these headwinds and so forth, but we were still up, we were still working and we're getting things under, under getting stabilized and so forth. Well, we really started to attack insurance dramatically recently. So finally insurance started to soften a little bit. It's, it's, it's a corrupt convoluted I won't go into detail because it would take forever. But one thing that happened that people might find interesting is a small insurer came in, he's not one of the big rated insurers, and he disrupts the market because he undersells everyone else. So even though you're staying with the rated insurers, they have to come down because they're going to lose a lot of their people to this guy who's unrated, right? And also because they'd squeezed the juice until they couldn't squeeze almost anymore. So rates were starting to come down. We've worked dramatically and I'm going to give you an idea. There was one property we had that are wind and hazard together. Um, actually it was the Swan and I'd gotten up to about a hundred over a hundred thousand dollars. And this is again, this one, this is nearly tripled from three years ago. And, um, and so our current agent, the, the way, the way it's, it's, it's structured as you can't really effectively have agents compete against it because they all go to the same carriers, all this of stuff, or you give one guy a letter, a broker of record, and then he's the one who can talk to everyone. So we're in healthcare and talk to everyone. It's just absolutely a corrupt, gilded system. But we figured out a way. I broke the insurance code, Bob. I broke the insurance code. I swear, I'm not kidding you. I figured out a way where I could have guys compete. I shared different things, all this kind of stuff. And now they're competing. That

property that was costing us, uh, 107, 103, 104, Like the broker comes back, Oh, I've saved you this money. We're at 95 now. So I made people compete, Bob. We just went down to \$44,000 on that one property.

Bob Irish-  
Right

- Justin Ford

So we're about \$60,000 below where we were last year. And this guy was trying to renew us, do us a favor by saving us nine grand. We're like \$50,000 below him because we created a competitive market in a market that is not competitive. I'm going to have a free ebook about it. It, but the insurance code, Bob, I cracked the insurance code. I won't even say what I did here. It's too valuable. And we're going to do it on all our other properties. We're paying, we're paying on our, on our nine, we have 10 properties, but nine are operating properties. We're paying like a million one in insurance. I think I'm going to save at least \$200,000 on that. And I'm going for more than \$300,000. And I'm making these guys earn every penny. They are no longer hiding behind this, this wall of non-competitive industry standards. So I'm very excited about that. Justin, you made reference to an e-book.

- Bob Irish

You ought to be putting something out on this. People would pay a lot for this. I know, but the insurance industry is going to target me, I'll tell you that much.

- Justin Ford

But still, I will do it for my investors in arms, my fellow investors in arms, no doubt. But let me talk about Fort St. John because they are also our insurance triple, by the way, we're working on that. And I think we're going to bring that down big. But Fort St. John is good. I mean, always over 90%. We had two bays vacant, a 1,200 square foot and a 5,800 square foot. So the folks on that 5,800 square foot, you remember that I had an engineering study done. We could bump it out to 10,000, maybe a little more. So now it could have appealed to people like Ace Hardware, which showed an interest. They had another place already lined up, but we're back up. But so it created more possibilities just knowing we could do that. But this 1200 turned out to be a nice little gem because we just got a UPS franchise. We're signing a lease with them soon. And you know this and we rent previously is probably on 10 or 11 on that. Now it's now it's going to be \$15 plus the insurance. And you know that and I think it's a 10 year lease with five year renewals.

That alone is significant. When you add the 15 and 21 you multiply it by 1200, I hate to do live math, but, uh, you know, it's going to be like, what is that? Like 6,700, \$67,000 a year, you know, right to the bottom line, basically. So, um, uh, which, which is, which, and a UPS franchise, which is really, really good. So that's nice. Aldis is doing the renovations. They're the main anchor, uh, they, they should, uh, be done. I think in about a month, of course, they're paying the rent in the meantime. And, and then, uh, We're still working on selling that out-parcel. I talked about last time the engineers kind of, you know, kind of gave us an idea and then they found out that they were wrong after two renderings. They're kind of wrong. Now we're trying a

third way where this is still marketable because we have two franchises that are interested in it and it could add, you know, 800 to a million dollars to the value of our center, which we bought for a little under eight million. So we'll know that we're having the last study done. It's called the geotechnical boring study. And yes, it probably is boring to most people, except when it might make you \$800 to a million more on your, on your property. So we'll know, we'll know that within two weeks. And then we'll be talking to the, the franchise, those other franchises again, and hopefully we'll create even more value at Port St. John. But in the meantime, we're 93, 4% occupied collecting our rents and in a Florida coastal market. So we're pretty content right there.

- Bob Irish

That's great news from Port St. John. Hey, listen, you shared all the good news about SWAN and I'm excited about that too. That could be fully leased up within the month. That's fantastic. But there's an investment opportunity with regard to the SWAN. Why don't you tell us a little bit about that?

- Justin Ford

So it's a first mortgage, it's a high yield mortgage paying 8 to 10% with a first mortgage protection plus, um, uh, personal corporate guarantees. So what the first mortgage of course means is that in the case of any default or anything else, you have claim on the property to get paid in full before anyone gets paid a dime, right? And in this particular property, there's over \$5 million in equity sitting on top of it. The maximum LTV on this is a 70% loan. That's loan to value. And the maximum of the cost I think is 64%. So it's a low to moderate risk. We feel it's a low to moderate risk investment. And it's on a property that we think that so far, as soon as we get units ready, they're renting out and it's a beautiful property.

It's always been my favorite property, just because aesthetically how we created it. Again, we got hit with COVID, but now we're finally bringing it to its rightful, you know, destiny as a successfully self-sustaining property. Studio apartments. So this, uh, this loan, uh, we're going to be, uh, sending out information about it. Um, in the next couple of days, we mentioned it last week, we already had a bunch of our long-time investors put themselves on the list for it. Um, and anyone who's interested should put themselves on the list. Now we're finishing up the documentation, but again, just send an email to myself and my son, Chris, our emails are [justinatpackedproperties.com](mailto:justinatpackedproperties.com). He's [chrisatpackedproperties.com](mailto:chrisatpackedproperties.com). And And if you could put high yield, first mortgage, paying eight to 10%, or just something like that, we'll catch it right away. We'll put you on the list. We've sold out of other mortgages. We recently did this for Ascend, as I said, and now Ascend is at 99% occupancy, soon perhaps 100%. And we think we'll refi out of Ascend as early as next year, early next year, which would give those investors, when we have a point in the yield, so the point can boost your yield when it pays off a little early, right? So, all those details will be available within the next few days, but anyone who's interested should definitely just send us an email so we can put them on the list, and it's a first-come, first-served basis.

- Bob Irish



Justin, that's great news, and what a great opportunity in the interest rate environment we're in right now. Anything else to add before we sign off?

- Justin Ford

No, Bob, it's just, I'm really proud of the awards we won today, even though those don't translate directly into the results we need to pay our bills. But I'm just proud because we have people who have been with us for so long. We have housekeepers who have been with us since we bought that property. In fact, they've been there longer. Our manager at Equus was there when we bought that property and actually was there longer. And we have people who joined us who have been there for a long time. We've seen people's careers grow. So it's very, very gratifying to, you know, have really good properties providing good service and with a great team and being able to deliver good returns for our investors as well. So I just want to give a shout out to our Vero and our Equus teams and I'm very grateful for it.

-Bob Irish

Great, Justin. Enjoyed our conversation. I'll talk to you next month.

- Justin Ford

Thank you, Bob.