- Robert Irish
Bob Irish here with our monthly call with Justin Ford of Pax Properties. Today we will update you on all the standalone investments in Florida and keep you abreast of what's going on with the 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 Ford
Justin, that said, how are you doing? I'm doing well, Bob.

- Robert Irish
How are you? I'm doing great. Listen, last time we got together, you had a catchy phrase. I think the phrase was stabilize in 25. And I kind of like it because it rhymes a little bit, you know, memorable. So I'd like to continue with that theme today because I know that stabilization is the goal. But before we get to that, let's talk a little bit about Vero Beach. I know there was a master lease situation. I think if I'm not mistaken, October was sort of the time when it was going to happen. What's going on there?

- Justin Ford
So we think we're at the one yard line. October 1st would be the takeover date. The lawyers have finally gone over final notes and we're waiting one draft back. It might actually be in my inbox. I have got to check. So yeah, so we're thinking October 1, the new folks take over. They give us a quarter million dollars and non-refundable, released fully to us, not in escrow. And then they give us another $50,000 because they build up another half a million dollars in deposit over the course of 30 months, even though the lessees tell me they want to execute probably sooner as far as buying it. And then they're going to invest a million dollars in CapEx. So by October 1, hopefully we should get $300,000 from them. They should be moved in and we'll be cash flowing even a bit more than we are now operating ourselves. That's how the arrangement worked out. And that's one less property for us to manage, which we like, We sold Melbourne a few months ago for a good price, leasing out Vero on very good and the sale price is very good. It's probably at least 15, maybe 20% than the actual market sale price right now. We sold it today. I'd say 15, about 15, yeah. And so, yeah, we'll see. But if it doesn't, Vero is still good. It just won the TripAdvisor award again, the traveler's choice. It's really, really nice property and it's a good market. Market's down a little bit. Hospitality in general, a lot of areas is down from previous years. But it looks like that'll come back at some point. But we're making money, we're covering our bills, we're paying out good returns. So we're good either way, whether it happens or it doesn't. Right now, it looks like it will happen. I'll be able to confirm that by this time next month.

- Robert Irish
Okay, great. So before we get into the stabilized, let's go to Ocala first and talk about Equus. Everything's good at Equus?

- Justin Ford
Everything's good at Equus. And it's doing so good that you can almost forget it's there because it's a steady eddy. I mean, but more than steady eddy. Like I said, it went to number one. I think it keeps bouncing between two and one in the market. And yeah, and it's always selling. Typically almost every month is a record for that month, a record July, a record August, et cetera. So we steadily make progress. Ocala is one area where we haven't seen the market go down as it has other places. Like the Star Report, which tells you what the industry is doing. The Star Report will show you that in Tallahassee, the market's still down 20% to 25% from its highs, and even though mostly profitable, and the same in Vero, down 20% to 25%. But Ocala is just a really strong market. That World Equestrian Center they have there has done wonders for it. And I think there's a lot of retirees who come down here, or just people from New York who aren't extremely rich and so they find South Florida now very expensive. Well, you and I live in Delray, Bob, when you're not in Utah, which you are now. In my neighborhood, the value of my house tripled in the last, I'm going to say, five years. I like my house, but I didn't do anything to make it triple.

- Justin Ford
The people are moving into the middle of Florida and Ocala is one of those places they're really moving into this horse country. I like the market, love the hotel we built, really proud of it, and the customers like it too, so we're doing well.

- Robert Irish
Beautiful, beautiful. Well, let's talk, let's get into this stabilization theme a little bit. We've got two properties in Tallahassee that are being converted from what were once hotels into apartments. So do you want to start with Casa Bella or do you want to talk about Seven Hills?

- Justin Ford
We'll go Seven Hills first because Seven Hills is a little further along. So Seven Hills Suites is 160 units. It has four residential buildings, 40 units each, and it has this beautiful lobby at the top of the property. The property is nine sloping acres, and we have amazing amenities. So we framed out and drywalled and painted three of the four buildings. We're working on the fourth now. We were waiting for cabinets and countertops, which I told you last time was delayed, and then the delay was avoided, and then it was coming on time, but after that, and the delay happened again, but it finally arrives. They're now in the States, the countertops are in the States, the cabinets have arrived. They're not on site yet, but they're making their way on US rail to, I guess, Jacksonville and then over to Tallahassee on truck. So, the demand is just really strong. I was like a little concerned, could we make $990, including all utilities work for 270, square foot studio apartment. Now we're at still 1015, pre-lease and we're at get 1015 strong, strong interest there. I mean, very, very strong interest. And of course we have a really beautiful product. I call this like a pied-à-terre, which is, it's French for your foot on the ground. And I think like the businessman who lives like in the countryside, but has this little tiny apartment in Paris where he shows up to spend whatever, a couple of days or something like that. And that's kind of like what this is. It's perfect for like a student or for a retiree or someone like that. Someone's

going to be there just a couple of years, single person. And they're gorgeous. And of course, all the amenities make it just fantastic. And we put up the gates, so now it's a private community as well. So we're just excited about that. And my level of confidence on that is higher than it's ever been.

Now, Casa Bella across town, that was a tougher challenge because Casa Bella ever since COVID, we've had a hard time bringing it back. We haven't, we've been losing money as we have at 7Ls. But 7Ls, by the way, three months ago, we closed it down. So we decided, you know what? Obviously, we're not gonna make any room money, but we're not gonna pay all the operational expenses and we're not gonna have that tension span. So it's about a break even for, we're not saving much money by closing down, but we're not losing much either. It's right around break even, but it lets us focus everything on just running the thing and changing the reputation from no longer a hotel to now an apartment that has the new sign up and everything else.

So Casa Bella, we were running as a hotel until actually till right now, but now we're gonna be closing it by the end of the, by the first week of October. We're going through a few football games where we have a lot of reservations and we're gonna no longer take weeklies or monthlies. Cause one of our strategies was we could do an extended stay there. Extended stay can be a very profitable hospitality segment, whether it's the lower tier or the mid-tier. The thing about extended stay versus regular hospitality is you have about half the staff. You don't have the night audits. You don't have anyone overnight. You close down the desk at 11 o'clock at night. You don't have as many maids because they're renting for the week and the agreement is we'll send someone in once a week, right? Or twice a week to empty the trash or something like that. You don't have all the housekeepers. You don't have breakfast necessarily. So you save tremendous amount operationally. You get much higher occupancy, but lower rates, but you end up with a higher or equivalent REVPAR, Revenue Per Available Room. And so it's a really good model. So we were trying it, but we're trying a little prematurely because we don't have kitchens in yet. Your Senate states typically have little kitchenettes, right? We had some rooms, but not most of them. So we ended up with a sort of a, you know, It's a nice economy slash mid-scale hotel, but we had a subpar product offering as an extended stay since we didn't have all kitchens in there. And we ended up with a subpar guest space. So we said, okay, not worth the trouble. We're shutting down. We're just going to focus. And then what this lets us do, we're going to be ready to lease up, let's say by the end of November and to start leasing up.

And this lets us take the sign down of the hotel, have people forget at the hotel, you know, because we, we had a bad reputation and no matter how hard we tried, you know, we, it was clean, we did everything we could and so forth. It, we, we got the wrong element staying there a lot, you know, at that hotel, the folks who sell drugs and that kind of thing. And so let's just disassociate, put the construction tape up, create the excitement, you know, new luxury apartments coming, new management, whatever it is, you know, that kind of thing. And then we, when then When we launch with our offering, we can launch, we believe, with a completely clean slate and the product will be beautiful. It'll be almost comparable to Seven Hills. Seven Hills, I prefer just because it has all that land and which gave us the ability to create all these amazing amenities. But this property also has good amenities and it'll have great rooms. Closing down October, I think 6th or 7th after the seminar, play Miami, I think. And then we finish up our construction, start leasing up by the end of November. So, you mentioned before the goal of the theme last month that we're picking up now, Stabilize in 25. I really am trying to call that theme Stabilize by 25. But the truth is, we're not gonna be Stabilized by January 1st, but we're gonna do everything we can by the end of the first quarter to be Stabilized, 90% of both and 90% percent in Ascend. Cue segue.

- Robert Irish
Yeah, we don't need to talk about Renaissance.

- Justin Ford
Oh, you're right. Yeah, no, thank you for that. I forgot. Thank you. Yeah, Renaissance is our third property in Tallahassee. And Renaissance is the apartment equivalent of Equus in that it's a beautiful property. We put a lot into it. And it's been really performing well. And management makes all the difference. We have a really good person and she's been fantastic. And we've shown her our appreciation in all the important ways. And she's gonna help us up on lease up, sort of like consulting with the other two studio apartments. She's really excited about it. When she sees them, we show them the prices, she goes, oh, you can get that all day long. And she's a woman I believe in, because she's been pushing rents in our place and can get up at 95% occupancy. And she's got good collections and her place looks good. And she's got really great people. Employees. So she's done a really great job there. And she continues to do a great job at Renaissance. It pays its bills. We're shooting for sometime in 2025 Renaissance. We returned two thirds of investors' capital, or maybe it was 60%. I can't remember exactly what it was. And we've been paying them 10% cash on cash, basically from the beginning. There were some pauses during construction, but then we caught up. We're going to try to return the rest of that cash for as much of it as we can sometime in 2025 because we think we'll have, our NOI will be strong enough at that point that we can take out what's called a supplemental loan to add to the main Fannie Mae loan to allow us to return more capital to investors. And so we hope that should happen by the end of 2025. Okay, cool. Let's go to Oklahoma. Let's talk about Ascend. Yeah.

We've been at 70% occupancy, 67%, 70% for about four months now. So we ratcheted up quickly from like 30, and stalled at 70%. And then we kind of just stalled there because one of the problems again was management. We had some young, enthusiastic folks there, but they just were not getting the results we needed. And we saw that they were leasing to folks or they weren't managing their tenant base enough, well enough, you know, that we'd have to eventually give them a notice and either evict them or they would leave after they weren't paying or something. So when that happens, you can gain five tenants, but then you lose four, you know, and you're always kind of treading or two steps forward, two steps behind. So we made a management change there about a month ago. We've been watching our regional, working with her. We sent out our Renaissance, GM, who's a wonderful woman. She recently went out there and she's got a lot of stuff, ideas to help us. We brought in a new leasing team, we had a leasing company out there that helped us for a while and they did a decent job. Now we're working with another company that's more, they're not on-premises, they're more like back office, set the marketing, take the phone calls. We like them, they seem to be doing well. This is supplemental to our efforts. Our own regular in-house efforts. So the property is good. We went out there, we made sure we took care of any persistent issues that the old management wasn't taking care of. Taking care of the pool the correct way, the gym, wherever it was, the amenities. Those are so important because everyone sees the amenities. And you only see one of the 146 apartments, but everyone sees the amenities. So you got to make sure those are always pristine. So we, We've been addressing that, and we think we've made the necessary changes, and we are cautiously confident and committed to stay with it until we start going from 70 to we 80, want to be in the mid-90s by Thanksgiving. That's our goal now, so we're working hard, and we think we have a good chance of achieving that.

- Robert Irish
Okay. Well, we want to cover Are there any of the other properties in Oklahoma as long as we're there?

- Justin Ford
Yeah, no, they're good. I mean, Apex is a steady performer, it's mid-90s, so they're good collections. Elevate, also low to mid-90s. It needed to improve on its collections, and we've made some dramatic changes there. What we've emphasized to people is this, your first five days, there's a rent you're doing the first, and then on the sixth, there's a late fee. Day grace period. If you get 90% of your rights collected during your grace period, you're going to do well. Now, if you set it up so that you're like half collected and then the 90% 28th, the person who's not thoughtful will think, well, that's okay, I still collected all my money, right? No, but what you're doing is you're training your tenants to pay you late, that it's okay to pay you late. And you create that culture, you create that environment. And then you end up with, when you do have tenants that you have to say goodbye to, they owe you much more than they should, instead of owing you a month, then they leave you two or three months, whatever else. So that was a big issue to send. That was part of the issue to send for a while. But now we're improving on those collections. It's very important that you hold yourself accountable. I'm going to give you a good place. I'm going to maintain it. We're going to make sure you have a good place to live. You have to pay your rent. So we have the resources to do that.

- Robert Irish
Why don't we finish up at Port St. John. I know the out parcel was part of our discussion last month. What's going on there?

- Justin Ford
Yeah, so I mentioned last month, we had an engineering company kind of do a rough conceptual plan. They did the research, you know, what kind of different uses. And then they did sort of like mock layouts of what a car wash would look like, what a a bank would look like, what a medical office would look like, and what a QSR, quick service restaurant, would look like, And so we have those things, those mock-ups on the greater survey, on the larger survey. We've given that to our leasing agents, the leasing company we're working with. And so they're using that. And then we're getting some good inquiries. I think I mentioned that O'Reilly Auto Parts

came in and they gave us a good offer. I mean, they gave us an offer that when we saw it, we knew it was a little bit of a low ball. And we went back to them with a, they came in at like 80,000 a year and we counted at 120. And then we had real good reasons for it. I mean, we're at a signalized corner, we're on a US1, we have over 30,000 cars a day. Aldis is now taking over Winn-Dixie, which is a very growth oriented store. They're taking over that particular location. The sales of that shopping center, I'm sorry, the visits, there's a place called Placer AI. It's a company that does geo studies of properties. It tells you your traffic, you know, who's coming in, how many people coming in and where they're coming from and where they're going to. So they do all that analysis. And you know, our traffic grew 3% two years ago and 5% last year, you know, and then all these other companies, So there's all these reasons why we think that off parcel is truly worth closer to 120. And since we just started the marketing on that, we think that's a good counter to make to them because we have other regional national brands that are showing interest as well. But early stages there, but we like what may happen there. Overall, I will tell you that the supermarket remains between 93 and 95% occupied. Of course, You don't have the same issue with collections that you could have in an apartment community, though occasionally you do have a bad tenant. But yeah, so it's a great, great property. Love it. We want to get some more of them. I'll tell you one thing, that beautiful mural that we created, a lot of people commented on it. Some idiot drove into a part of it. So I think we lost half the spaceman. So we have to rebuild that wall and put the spaceman together. Together again. But other than that, it's a great property. Super.

- Robert Irish
So before we wind up, there's a couple of things I wanted to talk to you about. One, I know there was an opportunity to participate in the loan at Ascend. And I know you raised a substantial amount of money. There were some people kicked in some money in the last month or so. Is that opportunity still out there?

- Justin Ford
Yes, we're gonna keep it open through September. So we filled the minimum in early July when we had to pay off the old mortgage. That was great. And then since then, more people came on. So the minimum is I think six, two, maybe somewhere around there. And right now we've probably filled a little over eight. Maximum is nine, nine. But we have people acquiring now and then. So if anyone wants to, it's a 7% plus a point for the first 18 months, it's 8%. And then if we extend beyond 18 months, it goes to 10%. And of course, it's a low leverage first mortgage loan. So it's a maximum think 60, 5% LTC loan to cost. But right now we're probably in the high 50s LTC, maybe mid 50s. And yeah, it's part of a first mortgage. And we think though, it's highly likely we'll pay it off within nine months, because with interest rates finally coming down, with the send, should be stabilized by November, we'll finally get our PERM loan probably in the first or second quarter, which could make it better for someone, because that one point, if we pay it off in six months, is equivalent to two points. So instead of seven, you end up with basically 9% annualized yield, if that happens. I'm not saying for sure that'll happen. But yeah, we're still taking money through September. So if anyone's interested, just send me an email, justinatpaxproperties.com. And if they can put a high yield first mortgage, that helps make sure we catch it.

- Robert Irish
One last thing before we say goodbye, we were talking a little earlier and I know that part of your due diligence that you do, you're looking at other properties, but you mentioned that, PAX might be getting into construction as opposed to buying, you know, C properties and turning them into B pluses. So, I don't want to go too deep into this because I know you're in the preliminary stages, but why do you think construction might be a good avenue for PAX properties?

- Justin Ford
Yeah. So, ground up construction, I think, makes sense for us. We've done over $52 million with the renovation but there are three main points that we think fundamentally this works. You have a growing population in the US about 1% a year. So that's over 3 million people. And that translates into over a million new households every year. But even besides that new growth, you had an existing deficit already, right? So we were behind when COVID, I'm sorry, 2008, then we started to catch up, then COVID hit, then we started to catch up, et cetera, et cetera. And then the high interest rates, et cetera. So, and then fundamentally, we think we, we've heard some people say that renovations are much harder than new construction, once the foundation is in, right? Because you never know what's behind the walls, right? But so we think it fits us and we know it's needed and we know it's needed, dramatically needed. So probably we'll be talking about that in the first or second quarter of next year.

- Robert Irish
Okay, great. Justin, always a pleasure talking to you. I look forward to chatting with you next month.

- Justin Ford
Thank you, Bob. Appreciate it.