**Bob Irish:** [00:00:06] Bob Irish here with our monthly call with Justin Ford of Pax Properties. Today as we usually do, 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, 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 have you back.

**Justin Ford:** [00:00:37] I'm doing great Bob. How are you?

**Bob Irish:** [00:00:39] I'm doing just super. Hey I thought we'd do a recap of the properties, but before we do, I understand that perhaps there will be the last 1% note. And so there'll be an investment opportunity. We can talk more about it later unless you want to just tease it a little bit.

**Justin Ford:** [00:01:02] Yes. It's going to be what we expect to be our last one. We've done a number of these, paid them off and a few others that are being paid off this quarter with some refis that have come up via banks. We expect this to be the absolute last one. It'll be about $2 million, but I can give the details towards the end of our recap so people understand the context of it.

**Bob Irish:** [00:01:23] Okay, great. Well let's start with the hotels.

**Justin Ford:** [00:01:28] Okay. So we'll talk about the three operating hotels. So Vero Beach, we've been doing tremendously well there. We had a recent change in management a few months ago, and the manager has really, really produced beating the rev par index by 20% on a regular basis, meaning if everyone else in our category sells 100, we sell 120.

**Bob Irish:** [00:01:52] Wow. That's great.

**Justin Ford:** [00:01:53] And that's good because now we have a refi coming up. We already had the appraisal, came in a little north of 7 million. The market value I think is closer to between 8 and 9, but our basis is something around five on that thing. So that refi should close this month. The phase one environmental is being conducted, I think this week. So that'll be a real positive. We're going to pay off a few private investor loans again. Every now and then we take a loan to do improvements pending refis. And this will be refi that pays off perhaps a half million dollars in investor loans and lowers our cost of capital overall. And we continue to beat the market. And we're entering season, which is really strong for us. So good things happening at Vero.

**Bob Irish:** [00:02:39] Good things happening in Vero. Let's move north to Melbourne. I'm on tenterhooks about that. I know that we were getting close or a hard close on that. What's going on there?

**Justin Ford:** [00:02:51] Yeah. We did in fact go hard last week. We passed the due diligence expiration date. They're going to be releasing $450,000. Actually, I'm sorry, $450,000 goes hard. They actually release $150,000 in cash so it's harder for them to contend with. We are now going to close in mid-April at a significant price $16 million. Again in the market, that hotel might be worth 12, maybe 13, 14 because of the land. But we sold to a strategic buyer who's was converting to apartments. And the way I wrote that contract Bob, is that if they didn't close, they've had a contract for six months. So they went to the city. They went to the county. They got all the approvals and everything else. They did their architectural plans, all the stuff. The contract stated that if they didn't close, all those drawings were ours. So we get all of them, every single one. They have all their approvals, everything. So the worst case scenario for us was we get all that and then we can just go ahead and do the conversion if we wanted to because that is the highest and best use of that particular property. And so that's a liquidity event that will happen in I think it's April 15th or something like that, or the 16th right around there. And again, nice things about that is we're entering into the highest season and the travel industry is pretty good right now. So we're going to really, really be raking in some good cash in February and March. Those are the very highest seasons. And those two months, you typically do what you do in any other four months, typically, maybe 4 to 5 months. So we're going to reap the very highest part of the season. And then we're going to sell at a premium dollar so that'll happen mid-April.

**Bob Irish:** [00:04:32] Wow. That's fantastic news. Fantastic news.

**Justin Ford:** [00:04:37] That was an eight and a half year hold roughly and I think the investors end up with about 3X on that. In other words, for every dollar they put in, they get three back basically in eight and a half years. So that was a pretty good return. That includes their dividends, which have been their distributions, which have been basically double digit pretty much since inception.

**Bob Irish:** [00:04:57] I mean, this is great news. I can tell you that I'm going to miss those distributions, those quarterly distributions though. Those have been real sweet.

**Justin Ford:** [00:05:05] Well, we got a 1% note coming up that you might be interested in. So what was that?

**Bob Irish:** [00:05:11] Well. That's great news about Melbourne. Let's go to, where we want to go now?[overlap] Equus.

**Justin Ford:** [00:05:21] The Equus Inn. By the way, I drove back from Tallahassee. I stopped in Equus, and I went to the World Equestrian Center in Ocala. I always say that's like $1 billion development they have out there. They have all sorts of show racing, jumping and in the back they have more blue collar stuff like barrel racing and stuff. But it's a really beautiful facility. I'd never been there and it was stunning. I just went in with a friend of mine, a guy was working with us on insurance for properties, and we just went in there while there was a show going on. And it was just beautiful and we ate some stuff, roamed around the grounds. I just love to see that development because that development is just is part of what makes Ocala such a really strong growth market. And like I say, the sheiks and the Kentucky blue bloods, they stay at the World Equestrian Center. They're stablehands and their jockeys stay with us at the Equus Inn. And the Equus Inn is doing great. It's still one Tripadvisor's top award again. We're just about to do a $6 million refi there and that will pay off all the investor debt again. So a lot of the folks who participate in these types of previous notes are going to be paid off entirely there. We've been pretty much caught up on pref. We had a few quarters. During COVID where we didn't pay three quarters. And then recently we were holding off on pref until this refi, which is what we're going to do. That refi should close in February. So at that point we'll get caught up in Thailand, all pref, pay off all investor debt and have some extra cash while we continue to grow. So Cal is looking very good.

**Bob Irish:** [00:06:55] Wow. Well, that's just a triple play as far as I'm concerned. Let's go to Tallahassee and talk about the two conversions. How are those going?

**Justin Ford:** [00:07:06] Those are going quite well. They're always properties, Seven Hills again, my favorite hotel in our portfolio. I just love it. I think it's so charming, really good quality, amenities, finishes, etc.. Beautiful piece of land. And we can never get it back to profitability after we leased out that homeless shelter after COVID, but we've started to make some real progress. We're expecting our permit. I've been saying this for a long time. But we're applying for what's called an early start work permit, because the official permit should come shortly after that. We're down to 1 or 2 items, like insurance issues and stuff like that. But as we're doing this, we started to pre-lease. So we have 160 units at Seven Hills, 40 of them. We have little kitchenettes without a stove. They're called wet bars in the industry, but just called kitchenettes without a stove. With our renovations, they'll now have stoves. So there'll be like a fully functional studio plus they'll have a little partition wall. So they'll look like a tiny little one bedroom almost. They're really, really gorgeous. We built a model. I think we showed it last time. You'll see it again. I'm sure we're going to pop it up on the screen.

[00:08:18] So those 40 kitchenettes without a stove exist already. So even while we're working on a permit, we started to pre-lease them Bob, actually lease them. Our offer is this, these units will have the stove. They're going to be 990 a month including your utilities so it's a great deal. But right now you can lease them without the stove for 890. Bob we have 28 leases already even before we started construction. Plus we have I think three extended stays. So really 31 because the extended stays tend to roll over sometimes. That's very, very powerful. And then our transient traffic, the Knightley's and so forth has picked up a bit too. We're still losing money, but we're dramatically reducing that gap. We're shooting for break even this month or early next month, but the big picture of course is to go into the renovation, get the funding for the renovation. And then with the renovation, with the refinance, we'll repay all existing debt. And it'll help finance the renovations there. So the long, the short about Seven Hills before we get to Casa Bella is the concept that we had. We were somewhat confident, but now our level of confidence is extremely high.

**Justin Ford:** [00:09:36] We're already pre-leasing. We spent some time last couple months really building the marketing material. You'll see. We'll put our flyer up here so you guys can see it, one of our flyers. And it's really, really just taking off everyone who sees it, who's interested in a studio, either for themselves or themselves and a partner, they love it. So we're very, very confident that this is going to be a successful conversion. At Casa Bella, there we shifted direction. In Casa Bella, we realized that we had a real problem there. There were segments of the market that were undesirable that would stay there. We have to get rid of them and so forth. We're fighting with that for a while ever since COVID. Pre COVID, it would happen occasionally. But since COVID, that was part of our struggle. Now we just embrace the down market. Obviously we still keep out undesirables, but we embrace the down market that we went weeklies and we went monthlies. So we're marketing those. Generally your weekly and your monthly folks are people who don't qualify for leases. They don't have their house in order enough to qualify for a lease generally.

[00:10:47] But you get more on a weekly and month to month basis than you do on an annual lease basis. For instance, we're doing 890 at Seven Hills. Our weekly is 350 plus tax. That ends up to more than $1,500 a month in most months. So right now we have 18 weekly and monthlies, and we have seven leases at Casa Bella even before construction and at the same time our transient has picked up a bit there as well. So just this whole marketing shift is really helping us prove our concept. Once we get our again, the permit should be I'm hoping by the end of this week, but certainly early next week, then we're going to be renovating we expect each property within nine months start to finish, one section at a time. We can operate while we go. We're not going to close down the whole thing. So that's going very, very well. We're working with a couple of refinance folks who are making offers on the refinance.

[00:11:50] That's been a challenge for us in this market. We've had a few people who got caught as I said in previous things, the Silicon Valley and Republic back in the day, others who just changed policies on lending and so forth and 1 or 2 who just I think they had funding issues. So we do have a couple of lenders who are strongly interested in this. And I think we're going to finally get this done within the next 30 to 45 days. And that's going to be tied to 1% a month thing. We want to show more liquidity. Even though this liquidity won't be touched, it'll just be shown and we'll have more liquidity. As I said in April, Pax will have another couple of million dollars just from the sale of Melbourne, for instance. That'll be there and there's other things coming, but right now we just want to raise the 1% for about 90 to 180 days in conjunction with that. But we've proven the concept. We just can't wait to get started and actually doing the renovations. And we think that could start as early as next week.

**Bob Irish:** [00:12:58] Wow. Exciting news on those two hotels. That's great stuff, Justin. Anything else before we go to Oklahoma?

**Justin Ford:** [00:13:09] Well we talked about the operating hotels and then the conversion hotels. We start on apartments. Let's start with the one that's outside the fund. Let's talk about Renaissance.

**Bob Irish:** [00:13:17] Okay.

**Justin Ford:** [00:13:18] The Renaissance continues to perform great. I mean, we're at 97% occupancy. We've pushed rents. When we first renovated that, I think our small units, we rented them for, I don't know, it might have been 795. Now we're getting 1045. It might have been less than 795, but it was a maximum. Most was 795. We're getting 1045 for those units. And tenants pay their own electric. They get billed for water. So by the time you pay your electric, you order your cable and your internet. Person in that small one bedroom is paying close to $1,300, for all that stuff. And that again reinforces our value proposition for the smaller studios we have at 990, including everything. So again, it helps. And not only that, Renaissance also reinforces our projections for success at Casa Bella and Seven Hills, because a third of those tenants are from the university of 160 tenants, roughly. 50 something are from the university. Even though we're ten minutes away from the university, we have seniors. We have grad students. We have a few faculty and staff there. It's performing beautifully and it's collaborating with us and helping us on the conversions of Casa Bella and Seven Hills. So things are going very, very well at Renaissance.

**Bob Irish:** [00:14:44] Oh, that is great to hear. Well let's talk about the properties that are inside the fund then.

**Justin Ford:** [00:14:50] Okay. Good. So we'll start with the Apex in Tulsa. 95% plus occupied, really we have a couple of lingering improvement issues we have to do. One was a railing and one was a balustrade and also finishing the electric individual metering. Those things will be done next month because we're finally finishing renovations at Ascend within the next two weeks as far as all the interiors go. I'll touch on that in a moment. But again, 95% plus consistent performer, reliable, looks great when I go out there. Really couldn't be more pleased with Apex. Apex is what a stabilized property was supposed to look like, just like Renaissance. We bought it with all these problems, and now it's performing beautifully.

**Bob Irish:** [00:15:46] Wonderful. Well let's talk about Ascend and the 146 units we've got there.

**Justin Ford:** [00:15:51] Yep. Well, actually before we get there, I'm going to jump to Elevate.

**Bob Irish:** [00:15:55] Okay. Yeah.

**Justin Ford:** [00:15:57] Oklahoma City 126 units. So that we finished renovations on that. When did we finish that? I'm going to say like six months ago maybe. And we've been leasing up. As of today Bob, we hit 91% pre lease. So we cracked the 90% mark.

**Bob Irish:** [00:16:14] Wow.

**Justin Ford:** [00:16:14] So 15 out of 126 units out of leased or pre-leased of those, maybe two or pre-leased, meaning we're going to move in the next week or so. But we're basically we're at 91% and that's huge because now we start positioning us for going from the loan and now to a lesser cost loan going forward. It's reducing our interest rate maybe by a few points sometime during this year. We're not going to rush on that. But sometime in this year, we may we may start to look to refi there depending on how much and if interest rates go down. We expect they will of course, but you don't know about how much. So that's been a real success. We had a vision, we transformed it. We put in $6 million in renovations. We turned this class C property into basically an exterior courtyard property. And it's in a great location, a location that's growing. I think we have about 60,000 cars a day or something like that passing by. So Elevate's doing great.

[00:17:19] Now I guess I'll move on over to Ascend. So Ascend, there's a couple of good things there actually. We're finally finishing renovations. We were on our last two buildings and they reached like 90% done. Every now and then what happens with some of these renovations, this has been a problem especially to Ascend. You'll remember that they forced us to redo all 72 balconies and they wouldn't issue codes until the balconies were done and the rent out thing. So it really pushed our occupancy way down and it hurt us. But those hurdles are basically over now because we're basically done. So we have two buildings left. But there were some stuff the inspectors required. That's going to push it back to mid-February and we were stuck in the mid 30s and occupancy for a while. We just crossed 41% there. And we're starting to just generate tremendous amount of traffic. I always talk to my people about marketing the concept. I call it universal presence. If anyone's looking for something you have, wherever they look, make sure you're there especially if it's be at all your free sites. Be at your reasonable cost sites and be at your higher cost sites that deliver a lot of ROI per dollar spent.

[00:18:38] And we've had a lot of success recently with Facebook marketplace generating traffic and out there rent.com is a big one for us as well. And we are now getting more traffic than we ever have. The weather was an issue there because Oklahoma is absolutely schizophrenic when it comes to its weather. It'll be very hot, very cold, ice storms, tornadoes, just crazy. But this particular property, we did have like a few icy days and so forth, but now the 60, 70 degrees, at least for a little while. March is a big lease up month, and the people are coming out. We're getting 50 inquiries a week now and we're getting I think 15 tours a week, which is really, really big. Last weekend, I think we got just on the weekend, we got nine applications. So we're starting to shift into this thing where we were growing like in a few leases a month. Now, we expect to grow at 15 to 20 leases a month for the next three months. Our goal is to be at 70% occupied, which would be about 105 units I think by April. So we'll see. So far, the last couple of weeks have really accelerated. We think we may get there.

**Bob Irish:** [00:19:52] Well, it sounds like the trend line is great moving from 30 to 41%, and it sounds like things are really improving there. That's great news. So good. We'll look forward to hearing next month. What kind of progress we've made. Let's talk about Port Saint John.

**Justin Ford:** [00:20:12] Yeah. So Port Saint John remains at 95% plus occupancy. I think I mentioned last week we painted a new mural there. I guess we might have shown it. I think we're sealcoating the driveway. Either we did or we are sealcoating striping the driveway again, doing some music in the breezeways and some internet stuff. So our tenants seem to be quite happy there. When we have a vacancy, we're able to fill it. We're able to fill it generally at a 10 to 15% higher than the previous lease was at, but our main anchors aren't going anywhere. So Winn-Dixie, we bought this two and a half years ago. They just renewed for ten years. So they're in there till something like 20, 32 or 33, and then they have more options after that. Planet Fitness is the next anchor. And they just renewed with us. They're renewing now. So they had an option and we're renewing at, I believe at least 10% higher than the previous lease. And then the third anchor is Winn-Dixie liquor, and that's strong. And then all our other tenants, most of them are just like that bar and grill.

[00:21:21] I don't think that's ever gone anywhere. The subway sandwich shop, the pizza joint, whatever it is, I think it's Papa John's. Those things just do great. The little nail salon. So really, really like that. And at the same time, I finally listed the outparcel. Oh, I'm sorry. I didn't list the outparcel. On the outparcel, what we're doing is I'm going to pay around. I think it's around 5 to $10,000 for a study by an engineering firm. That's going to tell us if you build on it, what does it look like, or could we because it's on a water retention, it's on a piece of land on the frontage near U.S. 1, which is a highway with maybe 25, 30,000 cars a day, but it serves for water retainers, water overflows, storm drainage. So the question is, can we move that to somewhere else on the property? In other words, create the same functionality elsewhere in the property. So this property can be normally developed, floor pad, do whatever you want. Or if that's not the case, to develop over the water retainage which is something you can do, what does that look like as far as engineering construction costs.

[00:22:32] Then based on that study, we'll go out to the market. We have a top rated broker to market it to various brands. A good friend of mine is in the retail business. He just leased out for instance a chick-fil-A for these folks that he owns a bunch of retail, everything from Kmarts to those types of things. And he connected with these folks, and he says they're great. So I'm thinking that by mid this year, we hopefully may have an offer from a good tenant and that would dramatically increase our income on that property. And it would boost the value of it probably I would say at least another close to a million bucks. We bought that at 7.8, I'd say today we could sell it for close to 11 after three years. It's 10.1 acres in a growth market, but I think developing this outparcel will push it north another maybe almost a million. So all that, we'll find out I would say probably in the second quarter.

**Bob Irish:** [00:23:37] Okay, great. So Justin, what is 2024 going to look like? You've described some liquidity events that our investors will be enjoying. What do you see ahead for Pax Properties? What's the plan?

**Justin Ford:** [00:23:54] I think there's a buyer's market emerging out there. I belong to different real estate groups. One of them is a bunch of entrepreneurs like myself. And between us, we probably own over $1 billion worth of real estate and one of my friends says there's going to be distressed sellers without distressed prices. Not sure exactly what that means, but I think I do know what it means. Volume in the transactions over the last year have dropped 50%. They're even lower than they were when COVID first hit, I think. So the high interest rates brought it way, way down. So things aren't trading, but things will come due when they do start to trade. And we've seen at least a 15% softening already in multifamily, maybe 20 in certain cases. So I think there are deals out there right now. I'll give you an idea. Over by Saint Pete Tampa, there's a really compelling apartment community there, nearly 800 units. That is a really strong growth market. And it's not far from where I live, which is nice enough to take connecting flights. My son Chris lives right near there actually. You can just drive by there during the lunch hour, but there are deals like that. There are retail deals that are very compelling. I've been talking about grocery anchored retail for 3 or 4 years now.

[00:25:25] Our one and only acquisition has been tremendous. But I'm seeing other deals out there that are similar to the one we bought. And today The Wall Street Journal had an article about retail, how it's much stronger than people expected, even though prices temporarily are still very attractive there. We can buy it above your cost of debt. Also office we know in most areas is way down. Bills haven't budged much, apartments of them maybe 15, 20%. But retail still has good yields. And you can buy strong retail so I expect to be offering more subscriptions to the fund and us to go out there and buy in the second quarter. And all our existing fund investors can get in at the original price. New investors will have to look at what the valuation is going to be at least 10, 15% more. But existing investors can get at the existing price and between now and then, because we have all these liquidity events going, we're raising 1% notes. It's a six month note with a six-month extension. This is just to bolster our liquidity while we close the Vero refi, the Ocala refi, the Melbourne sale, and then the refi of the two conversions. So we'll pay 1% a month for six months. If we renew again, we pay an extra point. So it could be an extra up to 13% a year. Even more than that, actually, if we pay off in the seventh or eighth month because the yield is increased.

[00:26:57] There's three months minimum interest. So in other words, even if we paid off in two months, you get paid three months minimum interest. The day you fund or within a couple of days of funding, you get your 3% interest up front. That's how we did our last 1% note. It comes with the personal corporate guarantee. We've done probably 25 million of these four at a time pay off, 4 or 5, three during these cycles. It's a good way to move through these transitions when you're stabilizing a property, refinancing a property or selling an asset. I think this would be a last 1% note Bob just because we'll see what the fed says today actually. But we do expect that interest rates will start to stop coming down significantly, that all sorts of lenders will become a bit more competitive. So we just won't have the need to pay 1% a month anymore. And 1% a month doesn't cost us that much because we could still park that in a money market fund that pays us 4%. So our net cost us is only maybe eight or so forth. If people are interested, they should reach out as usual Bob. Send an email to me and in the subject, just put 1% a month. That would help.

**Bob Irish:** [00:28:11] Okay, great. Well this has been a terrific update Justin. I'm very excited about the hotels and the conversions. It sounds like things in Oklahoma are going along beautifully and pretty exciting stuff. Maybe the last 1% note issued by Pax Properties. Sounds very attractive. Anything else you'd like to add before we sign off here, Justin?

**Justin Ford:** [00:28:42] No. And they can send emails to me directly. Just justin@paxproperties.com, just to make it [easier]. Yeah that's about it Bob. It's been a pleasure to speak with you.

**Bob Irish:** [00:28:52] Okay. Thanks for the update Justin. I look forward to talking with you next month.

**Justin Ford:** [00:28:57] Thank you.