# **Transcript**

**Bob Irish:** [00:00:19] 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 also 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. With that said Justin, nice to see you back. How are you?

**Justin Ford:** [00:00:51] I'm doing great, Bob. It's great to be back. How are you doing?

**Bob Irish:** [00:00:55] I'm doing super. The weather's been great. I'm sure people around the country don't want to hear that, so I'm going to drop it right there. Listen, I understand there's some good news for investors who were involved with the participation notes in a number of our properties. What's going on there?

**Justin Ford:** [00:01:17] Yeah, there's about $10 million worth of good news.

**Bob Irish:** [00:01:20] $10 million?

**Justin Ford:** [00:01:22] Yeah, a little bit over that, actually. We have three refinances going on and we expect to repay around a little over $10 million, half of that, or about 40% of that as a first mortgage. We refinanced one of our properties with a collateralized first mortgage just before COVID hit. We financed it, believe it or not, at 4%. We'll talk about that later. Then we bumped it up way up to 10% and so forth, and the note came due. I think it went to 11 or 12, but the long and the short Bob is it's good news, and it's also not so good news because a lot of our investors really enjoy making the 10, 11, 12% that they've been making. And every time we push money back, then push it back at us. But we expect to be up a little over 10 million.

**Bob Irish:** [00:02:02] That is awesome.

**Justin Ford:** [00:02:04] By the end of March, within five weeks.

**Bob Irish:** [00:02:07] Well, as we go through the properties, you can let us know how much is going to be repaid on each of them. Why don't we start off as we customarily do on Vero Beach?

**Justin Ford:** [00:02:18] Yeah. So Vero is doing well. We're entering season, so we're sold out most nights. The property is in very good condition. We just got a refinance loan for about $4.15 million. It's not a great interest rate, but it's cheaper than the cost of the private debt we added to supplement things. And we're paying off like a 2.5 first mortgage and about $1.4 million in private money. So about a $1.4 million in private money would pay it off. In fact, that's a property that we bought when the financing was really strong as far as low interest rates. And the lenders lent a lot more as a percentage of the total value. So we returned to 80% of capital in that property a long time ago. We did two refis and then on top of that, investors have been making something like 20% on their cash on cash for many years. We've owned that property over ten years, but we may even return the last bit of equity capital there too depending on how the final expenses shake out. So the equity investors will be playing entirely with the house's money after getting all this very strong cash on cash returns. And now they're going to be getting technically infinite returns, because when your denominator is zero, you know how it goes. You can't calculate the return anymore and then the investors are in there with notes, 10 to 12%. They're going to get paid off entirely, which is probably good timing because we'll talk later about the fund, maybe doing another round of equity capital in the second quarter.

**Bob Irish:** [00:03:51] Okay. That's great news on Vero. Let's move up to Melbourne. Is the sales still looking like everything's going to go through?

**Justin Ford:** [00:04:01] Yes it is. The money went hard, I think we talked about last month. Usually when money goes hard, it's in escrow. But we compelled them to release a large chunk to us, not a large chunk, about 150,000. They come, they asked us to do some medium repairs, which we agreed to because the price is such a significant price, and we would only do those repairs once we passed the hard money date, the due diligence date. So we're doing that right now. And everything else is a green light. So we're very excited about that.

[00:04:41] We should close I think it's the second week of April. And of course, we only have a few hundred thousand dollars in private debt on that, so that'll all be paid off. Investors get all their money back invested. They're even making 12.5% for quite a few years on the cash on cash. But we never were able to return any equity in that deal because by the time we finished renovations around 17, 18, took us a couple years to get the numbers up to a point where they were sufficient to take money out, but then of course COVID hit and then for a couple of years, we were having no lending in the hospitality market. And as hospitality lending opened up, it opened up for the big brands first, like Hilton and Marriott and that kind of thing. So now of course we could refinance it, but we're selling it for a significant multiple. We're getting a really, really good return there. We bought that property for a little over 2 million. We put quite a bit into it, but we're selling it for 16 million. So I think our balance sheet is close to 8 or 9. We put quite a bit into over the years, maybe 10 even, but still it's a significant when you include the original equity. But it's going to be a very, very good return for investors. And that's going to let us focus on our next stage of growth going forward.

**Bob Irish:** [00:05:52] Wow. Well that is a very exciting, great news out of Melbourne. I can tell you I'm going to miss those quarterly checks though. I'll miss them very, very much.

**Justin Ford:** [00:06:03] Try to find you another opportunity though.

**Bob Irish:** [00:06:05] Okay. I'll count on you for that. Why don't we go up to Tallahassee and let's talk about the two pivots that are going on up there.

**Justin Ford:** [00:06:17] Yeah. Before that bubbles, will stop in Ocala and we'll talk about the Equus.

**Bob Irish:** [00:06:21] Yeah. Let's talk about Equus.

**Justin Ford:** [00:06:23] Just the three operating hotels together [unclear] so that one will refinance as well. We expect to close the Vero loan, I said in a week to 10 days. And the Equus loan, we should close I think around two weeks. Maybe call it three weeks, but around mid-March. But when we bought Equus, we assumed the small loan from a bank that already knew us. We had much a lot of business with them. So the previous borrower had a loan. They just transferred it to our name. It was a very small loan, was like 1.7 million. So we never added any bank debt because we also bought that in like late 18 I think it was. We finished it in 2020 right during COVID basically. But that's been a home run, that deal. But this is the first refinance we're doing. We're doing a $6 million refi. So we'll pay off that small first mortgage. We're going to return $2.4 million in investors private loans there and then we'll have a little extra cash. We may return a little bit of equity. We'll see. We may keep some dry powder. We're going to figure out what we do. But first we're going to pay off a lot of the private debt. We're going to continue to pay. What are we paying now? I think we're paying between 8 and 10% cash on cash yields. So we'll keep that up. And we're glad to say that should close within three weeks.

**Bob Irish:** [00:07:41] Wow. Well, just more great news. That's terrific stuff. I will also miss those checks. Again, I'll be looking to you for some opportunities down the road. Let's go to Tallahassee and talk about the two hotels that were converting.

**Justin Ford:** [00:08:02] Yeah. So we have the permits and really for the last two and a half months, I've been telling people we're going to get the permit tomorrow. We're going to get it tomorrow, but they're out of excuses. We're down to paperwork, like, oh, we need this insurance piece of paper or this or that, or stamp this or whatever. It's not about structural. In fact, we think we slipped by. We weren't sure if they're going to require us to install a fire suppression system. In other words, where you install sprinklers and all that kind of stuff. Now we have apartments that we've done, like $8 million in renovations on in Tallahassee. We bought it for like 8 million. And they didn't make us do any fire suppression, the typical stuff like behind the walls, when you do drywall work, you do what's called fire blocks. And you do fire insulation. There's things like that and then every unit has a fire, what do you call that thing? Fire extinguisher, sorry. And that's extent of it. So I don't know why we're converting a hotel to an apartment. You'd have to be more dramatic. It's a small, one room luxury studio. You're going to be able to find your way out, exterior corridor. You open a thing and you're outside and we put it in our budget. So we were prepared to spend the money. We got the quotes. It was in our budget.

[00:09:23] The thing we couldn't find was a contractor to do it. I tell you, if you ever want to go back to work Bob and start a business, fire suppression, that's the first thing you should look at. Because those guys are busy except they can't find any help. So maybe you don't want to do it after all. But that's a big one. So they're not requiring that, which is nice. That'll knock off maybe 15% off our budget if it stays that way. But the minute we get that green light, we started doing all the laundry rooms, we built our model units, we ordered the gate at Seven Hills. So we're going to have a privacy gate. It's going to be a gated community. So we're doing all the stuff that we can do until they give us the green light to go into the rooms. And we've already started marketing. We have something like, I think last month I told you, we're at 34. I think we're down to 30. We've had some attrition and we've had a little bit slow, but still have 30 relative. The leases are month to month. Long term stays before we even have the concept with the full stove. We get those tenants mostly in the ones with the wet bars. That is basically a kitchenette without a stove. It's very, very encouraging.

[00:10:32] Today we had a meeting with the head of the housing authority, and she was giving us options to get some financing that might help with our thing that the city offers because they're very, very supportive of affordable housing. This is not affordable in the sense that it's subsidized, it is not. It's market rate. It's no vouchers, no HUD, none of that. But our pricing allows us to be what's called naturally occurring affordable. And we make very good returns on that. And I remember her telling us today, my associate George was saying that you said you have a marketing program and helping us get tenants and all this stuff, and she goes, you're not going to need it. This is the city saying, oh, yeah, we'll connect you, but you're not going to need it. It's true. When we show people our model, when we get them there, it sells like this. So the only thing we're really waiting for is to get the hammers flying and again I hate to say it, but I think we're going to get a permit in the next few days.

**Bob Irish:** [00:11:34] I hope so. What's going on at Renaissance?

**Justin Ford:** [00:11:41] Renaissance is amazing. We really have a good crew there. There's a couple of maintenance guys there who are very, very experienced. They're fairly new to us, but they they take really good care of the property. They're certified in HVAC and pool and stuff like this. So we don't have a lot of drama as far as deferred maintenance or anything like that. We have a really good property manager and she's just been pushing rents. So in a market where rents have kind of stalled, we were under price. We typically are under priced relative to other ones. We typically offer occupancy rather than maximum rents, but she's achieving both. We're helping her do it. I mean high occupancy, we're regularly over 95% economic occupancy. Our 550 square foot unit, which is our smallest unit when we first leased it out, I think we're at like 775, 800 bucks, something like that back when we finished the renovations, I would say four years ago. Today I think we're over a thousand bucks for that unit. And plus, they pay their own water and their own electric. That's just a great property. It's got $16.5 million of debt at 4% sitting there. We're paying regularly double digit cash on cash. We've returned about 70% of investors equity capital a couple of years ago so we'd like to buy more of those frankly.

**Bob Irish:** [00:13:16] Yeah. I remember, maybe it was a couple of years ago, you were entertaining or some brokers were approaching you about selling Renaissance. And the numbers seem to be very compelling. Are you feeling any of those calls right now?

**Justin Ford:** [00:13:32] Not really because at that point the market was in transition. Some people were willing to pay the price. We're willing to exit. I was willing to exit at something like 28 at that point. And some people were flirting with that, but really they were just tire kickers. And the real market there is probably 24 right now, 25. The properties come down, but we're okay. We don't need to market every minute. We're a bit like buffet. We put roofs over people's heads. We make double digit returns on our cash plus we're picking up an invisible yield amortization under $16 million loan. You're amortizing Bob. Well, actually, we amortize a portfolio that loans interest only. But typically on a loan like that, you could amortize around $300,000 a year. We probably amortize about 150 a year because we have some private debt that we pay off with our excess cash flow. And I can't remember how much cash is in that thing, not much. I think it's less than million and a half or something.

**Justin Ford:** [00:14:38] So you pick up every year, another 5 to 7 to 8% in cash on cash just for memorization, not cash on cash, but a return on your cash and amortization. It's like an invisible long time savings rate. That's it. So we like where we are. And we think we'll be in a stronger market two, three years from now, much much stronger. We'll get that number, maybe a little more. And if we don't, we're fine. We're happy with these double digit yields. And should rates come down, we can we can add more debt to it, more institutional debt. We can do what's a supplemental loan so we won't remove that bottom loan. We'll keep that 4% loan there. But you can add like a secondary loan from the same place. In this case it's the Fannie Mae lender. And we may be able to return most or all the small remaining equity, whatever, 30% of the original stake. And then again, you're owning now with the house's money and you're making significant returns and your tenants are paying down your mortgage. That's the way the cap strategy works Bob.

**Bob Irish:** [00:15:43] So are you ready to go to Oklahoma?

**Justin Ford:** [00:15:46] Yep. Let's go to Oklahoma.

**Bob Irish:** [00:15:48] Let's go Oklahoma.

**Justin Ford:** [00:15:49] Apex Tulsa, I love Tulsa. It's one of my favorite small towns, small cities. I've got 91 units there. It's humming. It's over 95%. It's a beautiful little property. Going forward on our next stage, I'm thinking we only want to buy like 300, 400, 500 unit properties. And maybe do some ground up construction. We've done $160 million worth of real estate in over the last few years. And we think we could do 160 million responsibly over the next 20 months what we've done in 20 years basically, but I'm not going to rush it. We're calm. We're happy buying nothing. But the right deal will move. However I say that because in Tulsa, there's 91 units and all of a sudden I see like 105 not far from there. And I'm like, oh, we got a footprint. Maybe we'll pick it up, because it's such a good price. I love the town. We already have a presence there. Why not add it? But it's a great, great market. We got into the right time. We got into a great cost. And that's a property that generates double digits, contributes to the fund so we're very happy with Apex.

**Bob Irish:** [00:17:01] Let's talk a little bit about Elevate.

**Justin Ford:** [00:17:03] Elevate in Oklahoma City, we finished those renovations a few months ago. And I think last time you and I spoke, we were in the high 80s, but we cracked and we might have been just cracking 90, but now we're at like 93%.

**Bob Irish:** [00:17:18] Wow.

**Justin Ford:** [00:17:19] So economic occupancy. Again we've pushed rents above our pro forma. That again is just a really, really great property. And it's an amazing location. It's got I don't know, 45, 50,000 cars a day. We've eliminated basically all the deferred maintenance. It's a really best in class property. We got good management in place and we're happy to own it for a while and it's going to produce really good returns for a while. So Elevate, our work has paid off there.

**Bob Irish:** [00:17:53] That's great. Now what about your 146 units at Ascend?

**Justin Ford:** [00:17:58] Our construction work is basically done. We have I don't know, 10 days, 14 days that we got to do pergola, this, that and the other. There's two units with some plumbing issues. We're going to go in and spend a lot of money, like 28 grand. We spend 6 million renovations, but sometimes on these old buildings, that's the thing about these old buildings, sometimes you're like, there's just no fix. We gotta break the concrete, go into the wood, go into the floor, rip out all the pipe, and open walls, all this kind of stuff. That's a little frustrating, but still we ended up with a great value. We have almost new product and are all in costs. I think it's close to $100 a foot again. They could give you the land for free and you couldn't build for that so you couldn't build for 150 foot if they gave you the land for free. So we really like the valuation base, but right now we're at 45% occupancy. We haven't made a lot of progress over the last month. We did over the previous month, but the last month we kind of stalled. But we started to get a lot of traction. We're getting a lot of traffic.

[00:19:07] We thought some of that was the weather. Oklahoma is really terrible. It's a schizophrenic state because the weather can get really cold and ice storms and get tornadoes and super hot. So it was during one of those very cold periods. It was kind of slow, but tomorrow we have a professional leasing company showing up there. They're going to help our team. And our goal is to get from 45% occupancy to 90% occupancy by June 1st.

**Bob Irish:** [00:19:33] Wow. What an impressive goal.

**Justin Ford:** [00:19:34] Yeah, it's three months. So basically they got it right about 23 units, 23 leases a month. They say they can do it. We'll see. Even if we come within 20% of that, we'll be in really good shape. We'll be able to refi out of our current bridge loan into a perm loan sometime in early to mid-May. I'm going to a happy hour tonight at 5:00 to sit down with a guy from Freddie Mac to talk about refinancing that property and maybe even refinancing Elevate at some point in the future as interest rates come down, but right now we're mostly lease up phase. And I hope by this time next month, I'm going to be reporting to you, we're at about 60, 65% occupancy. And I think we have a good chance of achieving that.

**Bob Irish:** [00:20:24] Fantastic. I'll look forward to next month's call. What do you say we go to anything else in Oklahoma?

**Justin Ford:** [00:20:32] No, that's in Oklahoma. We got one more property in the fund, and that's Port Saint John.

**Bob Irish:** [00:20:36] Port Saint John, yeah.

**Justin Ford:** [00:20:38] Port Saint John is doing well. It's right around 95% occupied. We have a few small bays. We're working on leasing out. We connected with a broker to talk about our outparcels. So we're going to contract with a civil engineer to do a study on outparcel. Because that outparcel serves a water retainage function. We're going to see if we can move that elsewhere on the property so that we can actually market that piece as a commercial space and people could either buy it from us or they could call what they could ground lease it from us. And if they ground lease it, they might pay us $100,000 a year just for the right to have that property to build on it and to lease it for ten years with five year renewal options for like 5 years after that. So that would just add our income $100,000 a year. These are my rough numbers, my rough estimates or they might come along, try to buy it from us for a million. I would prefer the 100,000 typically, the reasons for that, but just the ground lease and to keep it.

[00:21:39] We're open to both ways, but I really prefer the ground lease. And I have another piece of land that has gotten some really, really strong interest relative to what we bought it a few years ago. It's in Vero, but this one over here, I think it's on U.S. 1 so it's a very busy artery in a Florida coastal market. It's right by the Intracoastal. When you get a little bit extra land plan, everything you own or whenever you can get on something you own, it's just really, really compelling in today's market because Florida land is still in demand. We still have folks coming in from outside the state moving here and so forth. And we have people who want to build because affordable housing or middle class housing is still scarce. So rather than let land sit there, if you recognize its value and try to maximize it, it can really add to your return. And we think we're going to be able to do that with the Port Saint John.

**Bob Irish:** [00:22:45] Fantastic. Well this has been a great call Justin. I'm very excited, 10 plus million dollars coming back to investors. That is incredible. Sounds like everything is really on track. I hope those permits come through in Tallahassee tomorrow.

**Justin Ford:** [00:23:05] From your lips to God's ears Bob. And we'll do our best to make it happen.

**Bob Irish:** [00:23:10] Anything else to add before we sign off?

**Justin Ford:** [00:23:13] No, again I'll have investors keep it in mind that if we do an equity call and we're not going to do it till we really know that these two pivots are firmly in place and we're doing well, and we're heading exactly once we know that and we see and we see more in Oklahoma heading towards 70% and so forth. We know these two are heading where they need to be. Then we may be buyers again in the market with our fund. And we may ask investors, we want to contribute more to the fund can do it. And because investors who got in originally like yourself, Bob and others, you'll see no price increase. The documents of the funds, say every time we make an offering, you can get in the original price. Even though new investors would pay more, we'd have to assess it. It would probably be something like 15 to 20% more than what original investors did. But we may be coming out with that type of offer. And so folks should keep that in mind. And I wouldn't expect it for at least a month to three months somewhere in that neighborhood. But it's a possibility that that could happen as soon as we make the necessary progress on these three projects.

**Bob Irish:** [00:24:18] Sounds great Justin. Thanks for the update. I look forward to catching up with you next month.

**Justin Ford:** [00:24:22] Thank you Bob, I really appreciate it.

**Bob Irish:** [00:24:24] Thanks.