# Bob Irish transcript December

Bob Irish: [00:00:07] 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, but especially important now, given the rocky road that real estate has had this year, Pax properties over its lifetime has never failed to produce a positive result for investors or missed a mortgage payment. With that said Justin, how are you? Nice to see you.

Justin Ford: [00:00:44] I'm doing great Bob. It's very good to see you. How have your holidays been?

Bob Irish: [00:00:47] Holidays have been fantastic. We got together with the whole fam damily and yeah, it was great. Too much wine was consumed. I have to confess that, but we're almost through the holidays completely. I'm looking forward to next year. By the way Justin, next year and I know you're hip to this being a big follower of the Chinese zodiac, but next year is the year of the dragon, which means according to some who interpret this stuff, that next year is a favorable time for change, growth, and progress. So I'm kind of interested in your take on The Year of the Dragon. I think you're looking at 2024 as being a year of something else, am I right?

Justin Ford: [00:01:40] Well, it could be the year of the buy and the refi, Bob, but I'll explain that. I will also say that I think any year is a good year for change, growth and progress. It's more the fault Brutus is not in the stars, but in ourselves. That's what the whole CAP strategy is about. Do what we can do, but yet the market, those that act independently of us. The market presents high prices, low prices, high prices for money for property, low prices for money, for property, for labor, etc.. So this year, we recently in the last I didn't check the numbers recently, but I think the five year treasury is down about 120 basis points in less than a month. The ten year something similar. The ten year is the basis for many, many loans. There's other indices as well. Now people are thinking the fed might cut six times in the coming year, but as the old saying goes, timing is [every day]. That's right. So right now we have a couple refis going on. We're going to refi Vero. Vero is our oldest hotel. We've owned it for ten years. We've always had good debt on there, but our last loan there was, the lender there was bought by another bank. That bank doesn't want to do independent hotels, which is fine. But now we have to refi out of that because we're coming to the end of our terms. It was the old bank, they would just extend us, but this bank won't.

[00:03:13] So now we're back in the market and we're going to pay a little bit more for our money than we did previously. In fact, we're going to pay more for money in a lot of these shorter term refis. And there's a plus and there's a minus that I'll get into in a moment. But one good thing about all these refis is we're going to pay off all the private investor debt that we have for whatever we took on to do more capital improvements, that kind of thing. But we placed the old debt. We'll buy a greater extension of [term]. But our money before was five and a quarter. Now it's going to be closer to seven and three quarters, maybe eight. And yet if we took on this loan six months from now, I bet you'd be closer to 7 or 6 and seven quarters because the trend is going down now.

[00:04:01] I try to stay out of the prediction business, as you know. We still try to see the market and understand where it's going, but we try to mostly bet on what we can do. And where we are failing them, we try to get better at that. So we try to keep things within our control as much as possible. But there's a high probability that we're going to be looking at lower interest rates over the next six months and maybe even the second half of the year as well. The core inflation rate came in at under 2% on Friday just a few days ago. And another interesting thing about inflation is there's an argument that the fed has been acting a little bit late because I've always said 40 to 42% of the CPI is made up of housing related items. Some people say 35, but at the very least it's a third. They started to change the way they calculated the CPI back in. I think it was 92 maybe. And because of that, the housing component is very backward looking. It looks at rents back then. It's not current based and so forth. So they were looking at an inflation rate over the last six months that was really tied to the previous year.

[00:05:16] But if you're looking now, rents are up maybe 1% and flat in other places and so forth, which is fine with us because our rents already have risen to a point where they are, where they need to be. We don't blue sky underwrite projecting ridiculous increases at infinitum. So I think that the housing component is really []. There could be breaking. Housing prices are not soaring like they have in the past. Rents are not soaring like they have the past. All the components that make up the housing, fuel and so forth. All these things, fuel right now is spiking just because of what's going on, the Red sea. But on a long term basis, its macroeconomic forces. It's not political forces that affect prices. And all the trends for these are dramatically dovish. They're dovish. There's a good possibility that we're going to see lower rates. Now what does this mean? So anyhow, we're refining Vero. We're going to refine that. We're going to refine Ocala. Again we're going to pay a whole private investor debt and []. We're going to pay off the first mortgages. We're going to pay a couple of points higher in our debt than we would normally, but we'll then either sell them within the next two years or we'll refi them at a lower rate. We're going to have to assume, it won't be a higher total cost in debt because the new bank debt will be still lower than our private investor debt. So our debt is blended. We have a first mortgage that's lower than the new debt will take on. Then we have private investor debt that's higher. So the blended rate will be a little bit higher but not much higher. But the long and short is you have changes in prices and you have price levels. You know what the CPI index is Bob? The CPI.

Bob Irish: [00:07:03] Yeah.

Justin Ford: [00:07:04] So it's an actual number. It's a static number. Correct?

Bob Irish: [00:07:08] Yeah.

Justin Ford: [00:07:08] So I don't know what it is. I think it's something like 250 today or something like that. Maybe it's 270, I don't know. And where they created, where they indexed it to a hundred. It was 7, 30, 40, 50 years ago. Wherever it was, it cost you a hundred bucks to do XYZ back then. Today it cost you $270. That's the index. So if you compare the index of three years ago to today, maybe it was 243 years ago. Today it's 270 for the sake of argument. That number is going to stay up at 270 right now for a while. So that means all our assets that we bought, if you were trying to replace them now, you'd be paying significantly more to replace them. So our economic moat has deepened a little bit.

[00:07:50] It's given us more protection. Inflation has helped us in that way. Where we locked in the interest rates, we were able to finish the projects before for inflation shot up and interest rates shot up. We're really, really good. But on the ones where we have bridge debt going, now we're going to enter into a perm loan. And our permanent loan, our bridge debts like 12%. It's like expensive when we're doing construction. But then when you switch to a permanent loan in today's market on a multifamily, for instance in Oklahoma, your debt is going to be between 6 and 7 probably somewhere around there. If you're going institutional, maybe a little bit below six. So you're going to go for your long term debt, but your asset itself, the value of the asset itself as long as we don't go into deflation, that actually stays up there. So that protects us because we knew new buyers in the market. Now have to pay 30% more than we did for any asset of comparable value, plus they have to pay more for their labor. They have to pay more for their interest rate. They have to pay far more for their insurance. So the base, the minimum rent that they need to deliver, the minimum required return is much higher than ours.

Bob Irish: [00:09:06] Right.

Justin Ford: [00:09:07] We have that economic moat. So the long and the short, I'm going to tell you about this refi situation is, we're going to have this first six months of the year Bob, where we're going to be refinancing into a lower market, but not an ideal market. So we'll want to be refinancing into loans that let us refi again in a year or two because some loans are structured that don't let you do that. So you want to keep your flexibility. That's the approach we're going to take, but at the same time there's going to be tremendous buying opportunities, tremendous buying opportunities over the next six months. That's how we're looking at it right now.

Bob Irish: [00:09:46] So Year of the Dragon, forget that. It's the year of the buy and the refi.

Justin Ford: [00:09:52] The buy and the refi. In our fund, we may offer new equity positions with an existing investors get in for the same original price that's in the original documents. New investors are going to come in at a higher price. But we're not doing that yet. We want to finish our conversions of our partners in Tallahassee. So I'll give you a quick tour of the properties. We're doing fine. We're refinancing. Melbourne producing well. Mid January we will know whether that sale is going through or not. That's really due diligence. Ocala producing actually record revenue. Also refinancing that going to turn investor debt capital there. You get to Port St. John, Planet Fitness is one of our anchors. They just renewed. They're renewing actually, and we're getting to renew at a higher rate because. Because they had the option to not renew. They could have left. But they're opting to renew. We're moving them from about 11 bucks to 12 bucks a foot. So it's a good increase. And they're taking another 1200 square feet of space.

Bob Irish: [00:10:59] Nice.

Justin Ford: [00:10:59] We're still around 95, 96% occupied there. We just painted a beautiful mural in the Port St. John shopping center. We're just about to do the parking lot. So we're trying to follow the tradition we have of taking these sort of mid-level C plus properties and actually give it more attention, more imagination than owners typically give to these level of properties and turn it to a B+. So we're in the process of doing that. But Port St. John's is going well. And then you get up to Tallahassee, our two conversions. We're pulling for permits on both of those in January or at least on the first one. And then the Renaissance is getting record rents. I mean our smallest one is 550ft². We used to get, I think 595 we first renovated plus the tenants pay their pay something for water. I think we're getting 1040 now plus $80 for rent.

Bob Irish: [00:11:57] Wow.

Justin Ford: [00:11:57] It might be 940, I'm sorry. I apologize for that. Whoever's editing, let's put the correct number up on the screen when we're talking. But it's a lot more than and we have a great manager there. She's pushing the rents and we need to push the rents because we're dealing with a higher cost world. And by the way, here's something else I found out about Renaissance. We got 168 units there, but 95% occupancy. That's typically where we are. 50 of our tenants are from the university, and we're ten minutes away. 50, I mean almost one third of our tenant base is from the university. And like 40 of them are students like ten or like faculty and staff and that kind of thing. That blows my mind. And that's very, very encouraging for our conversions at Seven Hills and Casa Bella, because those are also ten minutes away. And where we charge 1040, it is 1050 short for the 550 square foot one. We're only be charging 890 for the beautiful small luxury studios at our hotel conversions. So we like the prospect for that. But again that involves another refi those things. So we're going through a refi right now on Seven Hills. We've been left at the altar a couple of times. As you know, there was public bank, Silicon Valley, all this other stuff that affected it. But we think we're going to have a loan closed in January. And if we do, we're going to pay off. The first mortgage in Seven Hills is all funded by private investors that I funded it from private investors. My great supportive investors. That was when interest rates were at zero Bob, when you can make money on anything. Do you remember that?

Bob Irish: [00:13:32] Yeah I do. Absolutely. Sure.

Justin Ford: [00:13:35] This was in 2017, 2018. So I raised $4 million as part of this first mortgage at 4%.

Bob Irish: [00:13:44] Which at the time was way more than you could get anywhere else.

Justin Ford: [00:13:49] [] right. It came through recently and my investors were greatly extended, and we're paying them now like 10% or something like that. But that's fine. We'll be paying that off and then we'll be paying some supplemental loans we had. That renovation is going to be done in a year. When that's done, when those renovations are done, I believe we'll go into perm debt. And the perm that we'll be able to get will be no more than 6%. It's going to be a very interesting year of buying opportunities and really careful financing strategies. And then to give you an idea that I'll go out to Oklahoma real quick. Apex is doing great and Tulsa, that's got a 4.75% loan on it for another year. No problem. To go back to Florida for a moment, tip top shops, which is our Port St. John. It's got like 4.375 loan for another five years. No problem. Renaissance has a 4% loan for another eight years. That interest only for eight years. No problem. We amortize ourselves by paying off private debt. Then you go to elevate. Elevate has a bridge loan. We just finished it. We did a refi, we turned a couple million dollars capital to the fund, but that bridge loans are around 10%, but that enabled us to recoup [] use some of that equity to finish the property more.

[00:15:10] But in the first half of this year, I want to refi Ascend. And at one point, I'm going to refi Elevate as well. I'm going to bring that 10% number down to six and the loan right there, I think the loan we can end up there is going to be close to 9, 10 million. I think right now it's around 7. Two points on $9 million loan is [hundred] $8,000 a year. Am I right about that? I think so. It makes significant difference. So packs more, which is the Oklahoma 146 units, which is called Ascend. We'll be finishing those renovations in January. And then we're going to be an aggressive lease up. Right now we're close to 40% leased up, but we should be at 90 by May. And again, we have to pick our timing of when we get into that permanent loan. The bridge loan comes due in July. We don't want to go from bridge to bridge because if we go from bridge to bridge, you're going from 10, 11%. It'll still be 9, 10, 11%. We want to go from bridge to perm if we can. So these are the challenges we're facing, but all in all, it's a year of change, growth and opportunity, I would say.

Bob Irish: [00:16:35] Well said. Well Justin, that's a great wrap up. Thanks for the overview of what's coming up in 2024. I'll be excited in January to hear hopefully that a number of these loans have closed and I'll be very interested in what's going on with Melbourne too. That could be very interesting.

Justin Ford: [00:16:59] Yeah it could, Bob. It could. And I think in 2024 when we get these refi settled and so forth, I think some of the opportunities we're going to be looking at are back in the triple nets like the shopping centers perform so very well. And I'm seeing some really compelling triple nets as well so there'll be some triple nets, some multifamily we'll be looking at. But the first thing is as my good friend Tommy Frank says, take care of what you own. Take care of what you own, which we do. Take care of what you own. Like I always say, it's like you have a family, you get a new baby, you pay all your attention to new baby. Don't forget the 12 year old. He's going into adolescence. Pay attention to him as well.

Bob Irish: [00:17:38] Right. Beautiful Justin. Well, anything else to add before we sign off here, obviously next call you may have some opportunities for investing, but at this stage of the game, anything, any opportunities for investors?

Justin Ford: [00:17:57] I don't think at the moment I have anything to offer. But I just want to say I truly wish everyone listening to this call a Happy New Year. And I'm so appreciative of all our investors. They've been great to work with. And I have great appreciation for you as well Bob. I wish you a very happy New Year.

Bob Irish: [00:18:12] And same to you Justin. I'll check in with you next month.

Justin Ford: [00:18:16] Thank you.