

BOB IRISH INVESTOR UPDATE ---7/26/24

-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 also keep you abreast of the underlying investments in the cap plus diversified income fund. I say 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, it's great to have you back. How are you doing?

-Justin Ford

I'm doing great, Bob. How are you?

-Bob Irish

I'm doing great. Listen, let's change it up a little bit. We usually go, you know, through Florida and then to Oklahoma, but I think today we want to start where the action is. And the action, as we've talked about earlier, is in Tallahassee with two properties that are on their way to becoming stabilized and also the Ascend property in Oklahoma. So why don't we start there and then we can kind of fill in later.

- Justin Ford

Well, that's great, Bob. If I was running a campaign, I would have a motto like stabilize in 25 something like that. We have, you know, we had 10 properties in our portfolio. We sold one for a good price a couple of months ago. So the nine remaining operating properties, three are undergoing transformations, right? The two hotels in Tallahassee are being converted from hotels to apartments, and that's going very well. I'll get into details in a moment. And then Ascend Apartments, which is our last major renovation in Oklahoma, we're in lease up there, and we're making good progress there as well. So you may recall from our last few meetings on Zoom, I had sort of an Old Testament beard going on for a little while.

-Bob Irish

I remember. I was shocked to see you clean shaven here. Yes, yes.

- Justin Ford

Well, it's almost like those baseball players, you know, we don't change their jerseys until they until they get into the World Series or something like that. It's kind of like I felt I was just going to let the accumulated years show until I finally got this stuff stabilized. And now I'm clean shaven because we're on the last lap there. And I feel like by the end of this year, December 31st of this year, we could possibly be stabilized for all three of them, but most likely towards the middle to late in the first quarter. But that's kind of where we are. Yeah.

-Bob Irish

Justin, what you're saying is if that beard appears in future videos, we should be worried, right? Is that what you're saying?

- Justin Ford

It wasn't a conscious choice, but that's how I'm positioning it now. Right. That's how I'm positioning it now. So in any case, I'll talk about Seven Hills first. So Seven Hills, My favorite property, aesthetically, just beautiful five buildings on nine acres, 160 residential units and the lobby, amazing amenities. Two of those four residential buildings are kitchen ready. We've done all the rough electric, all the rough plumbing, all the framing, all the drywall. We've even painted the entire thing. It's just waiting for the cabinets and the countertops to come in which will be in about two to three weeks, and then those go right in fairly quickly. We will have that fourth building kitchen ready right around before the end of August as well so we should have that entire property done. Sometime in October and leasing up as we go. Because again, you can lease up every building as you go. And our demand has gotten stronger than ever. We've been working the market. People are seeing the product. We put up that privacy fence, which is a very big thing. You need to have a car to drive in and out. So, and the property just looks beautiful we put up mailboxes. Now for the new residents since we're no longer hotel we have this great little sort of mail kiosk area, and all the other amenities are looking great the rooms are looking fantastic the way we designed the little semi-partition wall gives a small space, the feel of a tiny little one bedroom and very high-end finishes. We're really excited about that. We do think that Seven Hills has the best chance of actually not only being fully renovated by the end of the year, but being at or very close to 90 percent economic occupancy. Seven Hills is doing very well.

-Bob Irish

Great.

- Justin Ford

Yep. And then everything we're doing into Seven Hills, you know, we're applying a lot of it to Casa Bella. We have the same vendors, we have the same contractors. So Casa Bella, the front building, which has about 30 of the 135 units. That's basically kitchen ready in the next few days for the same, all the rough electric and plumbing and the drywall and the framing, all done, painted and so forth. And in the back building, we have about 15 units that are also in the same condition. So we're about one third of those 130 35 units should have kitchens in them by the time you and I speak a month from now. The other units, we will do probably the other two in two halves, 45 at a time, because we're dealing with a nice situation that since we've positioned it more towards extended stay, we're pretty full most of the time. We're still, because you know the front building is unoccupied for the most part since we're renovating it and 15 units in the back as well. We're not as full as we like to be but of the units that are available the 90 that are available. We're pretty full most nights so once we put the kitchens in we'll be able to get more for those extended stays and we'll be able to get more. Transition to apartments as well once we finally get everything done. So we expect Casa Bella may not be 90% leased by the end of the year, but the construction should be all done sometime in November. And we should be well on

our way to lease up as well by the end of the first quarter. So in Tallahassee, things are going very well. Very, very happy to report.

-Bob Irish

Wow. Great news out of Tallahassee. The pivot is on and we're coming down the home stretch. The beard is gone. So let's talk a little bit about Ascend.

- Justin Ford

So Ascend, you know, we were leasing up, we kind of stalled and then we picked up pace again. Right now we're picking up more pace. We're at 71% economic occupancy. Once you're at 90%, you could start to go for loans from the major agencies like Fannie Mae or Freddie Mac or local banks and that kind of lender. We do expect to get there by the end of September or the October. We're trying to get there sooner. We've just made some progress on increasing traffic a bit more. We've spruced up, added a little more homey feeling. And I will tell you one thing about this. When you transition in old properties, we've done so many times, like for instance, Renaissance, which is a great stabilized property in Tallahassee. What happens is you go in, we go behind the walls, we do the roofs, the windows, AC, everything. We don't just do the lipstick stuff. When you do that over time, also you're saying goodbye to a lot of the previous tenants who were, a lot of them were not the best tenants because they lived in a crummy place often for a reason, right? They weren't necessarily, a lot of them weren't very responsible, let's say. So you also transition your tenant base and that takes a while. And we've really transitioned. Quite nicely, the tenant base. So though we're a little slow in the lease up, we really have a nice solid base of tenants. Last night I was told that out in Moore, Oklahoma, George, my right-hand guy, told me that they had a blackout in the general area. And he said, you know, so all the people came out of the apartments, all the kids are playing basketball on our court there, all the people are hanging out by the pool. And it was just a really nice, you know, sort of view of the entire community. And that's kind of like one of the great intangible benefits you get when you do this kind of work. You create a really undesirable place into a really nice community. So I'm very happy about that. And we continue to make progress. And our goal is to be at 90% by the end of September, early October. And I think we have a good chance of hitting that.

-Bob Irish

Very good. So I know that last time we talked, we were talking about a loan, a mortgage, a first mortgage loan. And what's the status on that? Is that all shut down or do people still have an opportunity?

- Justin Ford

There's still an opportunity. In conjunction with stabilization, for instance, once we finish these, we're going to pick our moment to go from our bridge loans, which are high interest, to a permanent loan, which is lower interest. For instance, if we qualified now, you know, we might go from, you know, our bridge loan is essentially 12% at Seven Hills, 12% interest. We would go, actually it's 11, but when you count costs, it's really 12, because we won't have it for more than a year. So when you count the costs in the notes book, it's about 12. We would go right

now probably to something around six and a half, substantial savings. We might even pull a little equity out, doubtful, but possible. Today's market is very hard to get equity out of a property through refinance. But we believe, again, we don't hang our hat on the macro stuff, but we do pay attention. And we do think there's a good possibility we'll be watching what happens with rates.

- Justin Ford

The so-called smart money thinks it's 75 basis points to a point that's going to go down over the next nine to 12 months. I think that's quite possible. In which case, since we were not going to be ready for a refi really till the first quarter, it's quite possible that we may, instead of going to a 6.5% perm loan, maybe we go into something at 5.75. And that can be significant savings. A 1% on an \$8 million loan is year, \$80,000 which goes straight to cash flow. So we like that environment. And so because when we just paid off the Ascend, we had a high interest loan on Ascend, a bridge loan. And rather than going to another bridge, which would have cost us again, around 12% a year when you roll on the cost. So we made the offer to investors for a high yield first mortgage. And we had a minimum of a little over six and a maximum of a little under 10. So we filled the minimum by early July when we were due to pay it off. So we paid off that first mortgage. So we're saving about four percentage points on Right now we're on \$7 million. So that's a significant savings. And we do think that that investment now is maybe even a little more attractive than ever for regular investors. Because if we do go into a declining interest rate environment, and you're five and 10 years ago from the mid fours to the high three It's nice to be able to pick up 8% as part of with first mortgage security, plus personal and corporate guarantees. And we think that's quite likely. So we still have funds coming in. People are still adding to it. We'll probably be collecting, we'll be receiving funds on that. Again, we passed the minimum, the maximum is around 10. We think we'll probably end up funding around seven, between seven and 8 million total on that. And some investors, for instance, they have liquidity events, Bob, as you know, you might have a CD coming due or some people are selling a property. So they might, some of them have invested, you know, a hundred now and 50 later or 50 now and 50 later.

- Justin Ford

So we're still receiving them. The timing is not so much of an issue for those who are still interested. If they have funds coming due within the next month or so, they can always reach out to us. We can reserve a spot for them. Again, first mortgage security and probably a very competitive rate that goes up to as high as 10% if we go beyond 18 months. So I don't expect we'll have it for more than 12 tell you the truth. In an environment where rates can be coming down. So we think it may be a reasonable investment for some folks.

-Bob Irish

Yeah, absolutely. Well, you know, I'm invested in it, along with a lot of other folks. So good to know there's still an opportunity for folks that have money coming due. Justin, do we want to walk through all the various properties at this point?

- Justin Ford

Yeah, I'll give you a quick tour just because, you know, We already talked about where the action is. The other stuff is, for the most part, boring in the best sense of the word. Let's go back. Let's get out of the fund. Vero is performing a little bit above its index on the star report. That market is down around 18%. Over last year, the hospitality market, no, 16%, I'm sorry. But we're still beating our index by a little bit. We're still operating very profitably. We're still negotiating on that possible master lease. That property right now, if we sold it, recently appraised at a little over \$7 million. We have an offer to buy it for 8.2 million from someone who would master lease it. For two years, as we spoke about, they pay us about \$50,000 net, and they would pay all the taxes, all the insurance, all the operating costs. So it's basically like a triple net investment. And we've negotiated some of that. We reduced the term. They wanted to go as far out as 36 months to execute. We made it 24 plus six. If they execute that extra six, they have to pay a couple hundred dollars more, I think it is, or maybe 150.

- Justin Ford

But this guy is now committed to, he was going to invest a million dollars within the first year. We believe he's going to invest within the first six months. He's going to create like a resort style pool because the property lends itself to, he has a really good vision. So we think Vero is going to be a master lease now by October 1st, or there's a good possibility. And the strike price on the sale, is going to be a healthy one, significantly above the current market. Just like when we sold Melbourne, we sold it at about a 35% premium to the market buyer as well, to a strategic buyer. So we like where Vero is going right now. And in the meantime, it continues to pay its bills and generate good returns for investors consistently in the mid-teens on a cash-on-cash basis. So Vero's doing very, very well. We'll skip Melbourne since that's sold. And our last operating property is Ocala. Ocala is boom market.

- Justin Ford

That's a market where I once had, you know, maybe I don't know how long ago it was, maybe like seven or eight years ago, I could buy a hotel for \$6,000 a door. You know, now you can't buy the worst hotel for \$50-\$60,000 a door. And, but I said, who wants to be in Ocala was my thought. I'm like, if you're in Florida and want to be near the water, but it's the, they call themselves the horse capital of the world. I happen to love horses. And now I love Ocala and our property there. You know, it's by far our most profitable hotel. It makes over a million dollars a year in net operating income. It's trailing 12 revenues between and 3.7 million dollars. We think it'll get to 4 million sometime within the next year. So Ocala, and it went to number one on TripAdvisor recently. I think I mentioned that last time. So it's number one on the market. It was number two for a long time. So again, status quo antics, which is good. So very good at Ocala. So that covers our hotels outside of the portfolio. The other property outside of the fund portfolio would be Renaissance. And Renaissance is on track for about 2.4 million in revenue, about 1.2 million in NOI, consistently in the mid-90s (occupancy). And again, our manager there is really good in that she consistently pushed rents a little bit. And when we installed the privacy gates at Seven Hills, we negotiated a good price and we just installed privacy gates at Renaissance as well. Now that community also you have to drive in with a card and so forth. There's a locked walk-in gate as well. We just added an extra layer of security to that property and that's really helping as well. And Renaissance has great debt on it, fixed at another 4% something six and a

half years. And so that's where we want to go with our other properties that we're stabilizing now. But Renaissance is a good example to follow. So that's where we are outside of the fund.

-Bob Irish

And inside the fund, we probably want to just touch on briefly Apex, Elevate, and Port St. John.

- Justin Ford

Correct.

- Justin Ford

Yeah. So Apex, you know, Apex is sort of the, sort of, it's that really good kid of yours that you don't pay attention to because he's so good. He just keeps bringing home good report cards, doesn't cause any trouble, you know, and he's just consistently around. Again, we're doing a little sort of deferred maintenance stuff that we had to do, which was delayed for number of reasons, but just really performs well. So we're really happy with Apex. We have good equity in that property, you know, in addition to what we invested. Elevates been stabilized now, meaning above 90% economic occupancy, I'd say for about three to four months, and we're currently at around 93, 94% pre-leased. Really good property, amazing location. Again, we're very happy with where Elevate is. Then we move on to Port St. John. That's the grocery anchored retail center. As we discussed, Win Dixie was bought by Aldi's, they were converted to an Aldi's footprint, which means they'll take up less space so that they sublease the remaining space they're not using. And that's going to give us the opportunity to make more money. We've worked with an engineer to develop that out parcel, do some conceptual drawings, and we're working with a broker to list that out parcel. We think we're going to be able to take this very profitable property that doesn't require so much of our attention and create more income than was scheduled, because we already had increases scheduled in a lot of the rents. Every year, some of the rents go up. But we're creating more opportunities with that subdivision of the supermarket. It's going to create a little more income, of course, in the out parcel as well. So it's a great investment, and we're looking for more grocery-anchored retail centers as we speak.

-Bob Irish

Well, Justin, what a great update this has been. Is there anything else you'd like to add before we sign off?

- Justin Ford

Just that I, you know, my email box does get flooded. So the folks who are interested in participating, please email myself, copy Chris, my son. I'm **Justin@paxproperties.com**. He's **Chris@paxproperties.com**. And to make sure we, you know, we don't lose the email in the mix, just please put **"high yield first mortgage"**. Okay one thing I should mention is sort of a housekeeping note. We changed the investor portal company. So for a while, the portal wasn't fully functional. We have a new company uploading everything and getting the portal working again. That old company, I think they went out of business or something. So we have that

transition. Being that should be fully functional by early August, if not by the end of July. So for folks who've been watching that, that's why you can reach out to Chris directly on that kind of stuff. But the portal should be up and running and fully accessible within a few weeks.

-Bob Irish

Well, I'm glad to hear that. When I was investing in the mortgage at Ascend, I did have some trouble navigating the portal. And you explained to me that it was a transition going on. So I'm delighted to hear that that's going to be a much easier path to follow.

- Justin Ford

Yes, that's right. And actually, that's a good point. Because on future offerings, different offerings, we'll do the typical DocuSign route that makes it much easier for folks. But right now, we are doing a little bit of the old-fashioned way where we send a password-protected doc, and they can mail it back or fax it back or send it back password-protected. But again, that's a temporary thing, but all that will be resolved very, very shortly. But on this final offering, the subscription, that's how it's going to be done right now. But that's not too much of a hassle.

-Bob Irish

We make it easy. No, no, it wasn't. It was just, I mean, it just, I felt it just kind of been a little easier because I'm, you know, I'm, I'm just, I'm not technologically that adept, you know, I can, I can get on a Zoom call, but that's about it.

- Justin Ford

You and me, you and me both Bob.

-Bob Irish

All right, Justin, hey, good talking to you. We'll talk to you next month.

- Justin Ford

Take care. Thanks, Bob. I look forward to it. Me too.