Bob Irish

Bob Irish here with our monthly call with Justin of Pax Properties. Today is going to be a very unusual update. Of course, we'll update you on all the standalone investments in Florida and keep you abreast of what's going on inside the CAP Plus Diversified Income Fund. I'm going to say it because 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. Justin, I have to tell you, I've been looking forward to this call. I think we kind of set the table last month. And let's talk money. We were talking about some big time with $20,000,000 in distributions. And where are we on that front?

Justin Ford

So we've come very close to it Bob. And by the way, it's always great to be here with you. Thank you as always for hosting. Yeah, so last, within the last five weeks or so, we distributed about 9.16, 9.18 million paying off loans at Vero, small one at Melbourne, Ocala, Pax hall suites, the first mortgage on tax hall suites as well as lenders. So that was almost $9.2 million that we paid off in private loans. Those are all investor loans. And then because of refinancing and a big sale, which we'll talk about in a moment, we got caught up on a lot of PREF. Ocala, we caught up almost $1.2 million in PREF. We were holding off pending a refi and some other things. On the cap plus fund, we got caught up a little bit more than $1.2 million in preferred return there. And then we made our regular distributions at Vero and GSA. So what we've paid over the last five weeks or so is a little over $11.5 million. And what we'll pay over the next two weeks or so is about $7.8 million, so a little over $19 million. And a lot of that's due to three small refinancing, Vero and Ocala, a major one actually at Baxall Suites. And then we had a $16 million sale at Melbourne. I don't know if I mentioned that one, Bob.

Bob Irish

It was in the offering and is that deal closed now? It's done?

Justin Ford

Yeah. We closed a week ago yesterday. Last Thursday, we closed at 6.30 night with a bunch of things going on and funded Friday exactly a week ago. We're still at the property as far as liquidating the furniture, which is part of the contract. They wanted it empty. And we didn't want that responsibility, but it was a negotiating point. We ceded it. They're paying us a good premium at 16 million. And we're in the process of doing all that and finalizing books and different things. And June, I believe it's June 4th, right after Memorial Day, we expect to issue payments for about $7.8 million return of capital, caught up on any deferred PREF, and then share of capital gains. So in all, it's gonna be quite a good day for cutting payments.

Bob Irish

wow, I can hardly wait to see that check.

Justin Ford

It's gonna be good. For every $100,000 invested, a person should expect around 175 to 180 something. And they've already received 50 plus. So our initial calculation, again, we have some final numbers to go through. It's gonna be an equity multiple of about 2.33. In a little under nine years. And because of the timing of the distributions, the IRR is about 11.2% we expect. That's not a home run, but for us, remember this is a hotel through COVID. So to come out of the worst pandemic in a century, perhaps in the hardest hit industry, and to deliver that, we think that's an acceptable return and we hope our investors feel likewise.

Bob Irish

Well, the next question, Justin, with all this money flowing from PAX into the pockets of investors, what are we gonna do? What are we gonna do with this money? Where are we going to invest it? We talked about it a little last month, but where's our next opportunity?

Justin Ford

Yeah, so after that conversation last month about our, we're offering a first mortgage loan for Ascend Apartments in Moore, Oklahoma. That's where we finished recently about $6 million in renovation. We're 58% we're about 66% pre-leased. By the time we close that loan in a few weeks, we expect to be about 60% plus leased, and we expect to be 90% by September. So it's sort of a very short bridge to what's called stabilized. It's a loan that pays 7% plus a point, so 8% in the first 18 months. And if we go on to another 18 months, it jumps to 10%. We truly expect this loan to probably be in service for 12 to 18 months because all renovations are done. We're making good progress on the lease up. We just paid off the first mortgage loan like this at Pax All Suites.

After our conversation last month, we had about 45 investors saying they wanted to participate from our conversation on this cast we do. But I'm sending out the actual docs today. So investors will have the weekend or whatever, Tuesday and Wednesday to look at it. And we feel that we may be oversubscribed based on the initial interest just from our mentioning last month. So we do encourage folks to email me, justin@paxproperties.com. High-yield first mortgage in the subject line, and we'll make sure they get on the list in the order they respond. And we should have this offering wrapped up, we would expect, by the second week of June.

Bob Irish

Okay, good deal. I'll look forward to seeing the docs. I will be I think I've got a place in line. I responded pretty quickly after our call, so.

Justin Ford

We got you there.

Bob Irish

What do you say we do a quick review of the properties? Does that sound like a good plan?

Justin Ford

Yeah, no, it's a great plan. So we'll start south to north.

Justin Ford

So Vero Beach won TripAdvisor's top award again in 2024. Vero continues to do well. Typically, we exceed what's called our comp set index. We sell a bit more than the folks in our index. And we've had a couple of offers, a few to buy previously was a little under a number, but we recently got a few offers to master lease the property. With a purchase agreement. It's not an option to purchase. It's basically a commitment to buy within 30 months or two and a half years. In the meantime, they take over all expenses and they pass about $50,000 to $60,000 month. It goes from 50-55-$60,000.

Justin Ford

And that's typically more than we net as an operating company. So, and they give us a good down payment, a quarter million dollars, and they commit to invest in capital expenditures, a million dollars. And within the first year. And we have to approve it and all this. I've already met with these guys, they've done it at four other hotels. And these guys are, the young man who's doing this, his parents are in the business. He's got a higher degree in engineering and maybe an MBA or something. So he's really being very sophisticated, I think. He's a good operator and he has a really good vision for the property. He explained it to me. He's going to put in a lot of showers from the tubs, update it, change the paint color to white, more modernized. Take that pool that we have a beautiful pool in the courtyard and make it more like a resort style pool. So spend $300,000 expanding the pool.

Justin Ford

He's going to take over the restaurant. He's done that in other ones as well. So after meeting with him, hearing his vision, looking at the terms, we think there's quite a good possibility. If that happens, that happens July 1st. We've gone back and forth with the agreements on that, the purchase agreements. So that can be a very, very strong return for everyone. It's about the sale price. Again, I don't like to mention these things on podcasts, but it'd be an extremely good return for our Vero investors, The IRR in Vero since we returned capital way early on in Vero. It is in the mid to high teens, maybe the very high teens. And that'll be, as far as PAX goes, with the sale of Melbourne and the master leasing of Vero, it really opens up our bandwidth, our ability to concentrate on our next acquisition, because Ascend will be stabilized, as I said, should be stabilized by September. So now we have all fully stabilized operating properties. We have a little bit of a smaller portfolio. We have a lot more cash in the bank. So we're really looking forward to taking advantage of that greater bandwidth because we're starting to see real opportunities out there. So Vero could be a very good piece of that puzzle.

Bob Irish

We can skip over Melbourne.

Justin Ford

Well, I'll touch on Melbourne briefly just to tell you that. Also, just before we sold it, we won TripAdvisor's top award again as well. We bought it in August 2015. We finished renovations mid-2017. By 2020, we were getting our numbers up to do a refi to return a lot of cash to people. But then COVID hit, right? So we never got a chance to do that. Instead, we had to take on a bit more debt, that kind of thing. And that's one of the reasons why I really think that this return is really quite good that we achieved here. But it won TripAdvisor's award before we closed for the seventh year in a row. Every single year we've been operating there, we've won it. And that puts you at the top 10% of hotels worldwide on customer satisfaction as rated by their guests. When we had Melbourne, my GM at the time, I told her, go to number one. She goes, I can't go to number one. We got oceanfront properties. I go, all you have to do is please your customers more than they please theirs. I said, if I was coming into Melbourne, I'm going to spend 400 bucks. I'm not staying in our hotel. I'm going to stay on the ocean. If I'm spending 100 to 150, Every hotel I find in that range, I'm definitely staying at our hotel. So you walk into a hotel in the ocean, at that time it was $400, there's night, but $600 you have $600 expectations. And you might not be pleased if they only deliver you a $500 value. But our hotel, our goal was always to deliver extraordinary value for ordinary people. And because of that, we did go to number one. We were on top of all the oceanfront hotels for a little while, and we won that award seven years in a row. So I think that's a nice icing on the cake on top of some good returns.

Bob Irish

Wow, that is so great. Now, were there any, did you have to let the guests who were in the hotel know that they had to find another place to stay? Or what happened to the guests? Or did you stop taking them?

Justin Ford

So we gave them plenty of notice, and I'm writing that report from Melbourne today. That'll also go out today. And then I have a section that called drama, you pay us not to hear about. So something like that. So getting to the closing was crazy. They extended all of a sudden, because they revealed they wanted to do a 1031 or a reverse 1031. I won't go into the technicalities. They ended up having to pay for that. We had to get some moisture removed from the rooms, and we did. One report was a little late, so they held that over us and we granted their extension. And then at the very last minute, one guest who was there for a very long time decided to squat and not leave. And because she was there for so long, she was treated now under landlord-tenant law instead of hotel law. And so long story short, we were trying to get her out. And then one of my good young associates was the guy who succeeded. I told him, just take cash and flash. And we flashed $5,000 in front of her. And politely, and not so politely, I think, he suggested they get out. And they did at like 10.30 at night before the day we're supposed to close. And we actually closed two days after that

Justin Ford

The idea of a limited partner is that your liability is limited, but you actually have no involvement in the day-to-day. That's the real thing about it. Those are some of the stories we tell when we have time, but there's a lot that goes into making the sausage, as you can imagine.

Bob Irish

Oh, wow, what a story. All right, you wanna go up to Ocala? Everything good at Equus?

Justin Ford

Ocala's doing great, still holding on to the number two spot in the market, still reaching record revenues on a T12, a trailing 12-month basis. We're typically around 3.7, 3.8 million. I think we can get into the four millions starting the second half of this year on a trailing 12 basis. It uses up very little of our time because it's consistently busy, consistently profitable. Our management has been there since inception, and they were even there seven years before that. So Ocala is sort of the best type of stabilized investment that it consistently produces and lets us do our thing, which is take care of problems when they arise and look at the future and grow the company where we can.

Bob Irish

Beautiful. How are the two conversions going? Casabella and...

Justin Ford

The two conversions are going remarkably. We finally got our permit, I guess, a couple of months ago. On both of them, we're about the 35% way through. We've got a good relationship with the city. We've passed on one of the buildings, the rough plumbing, the rough electric, and we're putting up drywall now. Soon after that, we'll paint, and then the cabinets and the countertops will go in. We're expecting to start renting units there, even while we're still in the construction for the August leasing season for students coming back to FSU. And again, we already have a lot of strong pre-interests.

Bob Irish

So both properties are, you were talking about Casa Bella and Seven Hills and you're doing some, you're going to be doing some pre-leasing in August for students returning and that's for both properties or?

Justin Ford

For both properties, yeah. So at Seven Hills, we have four residential buildings. We expect to have one of them completed in July, and then the second one shortly after, the second and third and fourth one, each one about a month after that. So we'll have 40 new units to lease out in August, and then another 40 in September, and another 40 after that, following month in October. We already have about 40 people right now in-house, But we're adding all those kitchens to there and to Casa Bella, and we're taking the same approach with Casa Bella. Our goal and our expectation is that by the end of the year, not only will all renovations be done, but we will also be close to or at 90% economic occupancy at both properties.

Bob Irish

Wow, fantastic. How about GSA?

Justin Ford

GSA, you know, continues to perform. We have really good management there and our revenue now is higher than it's ever been. It's about $224,000 a month, last I looked, which basically puts you close to $2.7 million. When we started, that property was producing less than I think a million and a half dollars in revenue. And when we stabilized, we were in the low twos, so we've grown our revenue about 30% over the last three years and consistently maintain 95% economic occupancy. We always get people calling us about buying it, We're not necessarily going to sell in this market unless we find another strategic buyer who's willing to pay our exit price. Our exit price, we think, is going to be at least $26 to $30 million, somewhere in there, depending on when we sell. But we get people who are starting to kick tires. Coming a little bit close, but not where we want to be. But again, it's another property that since we did all the work and it's renovated, we have good management in there. It's a strong market. It doesn't take up a lot of our time. When it does, we address it. Like for instance, we're adding their security gates. So it's a new extra, you have to drive in. So that's a, another added bonus you can have, it's going to eliminate you know, sort of the wayward crowd going in and out trying to do some business in parking lot, which we didn't have much of but now we'll have. Practically none of We also, by the way, to jump across town at Seven Hills, we also added security gates there. So it's now a private gated community as well, where we're finished with our renovations, luxury studio apartments. So Renaissance is doing great. I know I'm jumping around a little bit, but by now all these properties are like kids. You can kind of interchange when we talk about them so you know that Bobby's at baseball and Jill's doing something else. But Seven Hills, we also put in that security gate and our sign just went up yesterday. So it no longer says 7 Hill Suites, it now says The Swan Luxury Studio Apartments. And so we're also starting to put our face out to the world that way. And pretty soon we'll be ramping up our online marketing. Once we start to see we'll have availability. So Tallahassee O'Rourke, Casa Bella, 7 Hills, those two conversions are going great and Renaissance remains a really, really strong property.

Bob Irish

Wow, that's fantastic. Let's do a little flying. Let's go to Oklahoma. Talk about Oklahoma for a little bit.

Justin Ford

Sure. So Elevate again, let me start with Apex since that's our oldest one there. We did that around four years ago. We bought that. Consistently over 95% economic occupancy. We're tying up a little CapEx that was lingering. There's changing out some common electric meters to individual, some railing adjustments and repairs to a balustrade, but we have that under control. It doesn't affect operations. Again, consistently high occupancy, consistently good collections, a good manager there. And we like the Tulsa market. It's really, really a good market. So Apex is going very, very well.

Justin Ford

Elevate in Oklahoma City about 90 minutes away. That's 126 units on May Avenue, which probably has 40,000 cars a day on a good intersection not far from the highway. I think it's I-40, I believe. And again, that's in the about 93 to 95. Typically, we're going to break the 95% mark soon. All our construction is done. Our general manager there is also a regional manager. And so that's going very well.

Bob Irish

Beautiful. And the 146 unit Ascend property, where are we on that?

Justin Ford

So on that one, we made dramatic progress in leasing up between February and March. We went from about 33 to 50s. And then we kind of hit a plateau for a little while. I think some of that was shaking out a few bad tenants. So as we were bringing on new ones, we were replacing a few of the last bad ones. Most of the bad ones were already gone. But right now, as I said, we're at 58% leased, you include 66% the pre-leases, and we have a leasing company out there helping us, and they're very good. They do a lot of the boots on the ground marketing, the guerrilla marketing that you really need to do in a lease-up situation. So we remain confident that we'll be at 90% plus. Our loan comes due July 6th on that one. That's why we're sending out the loan offer today. We've been repairing the docks over the last few weeks. We know we have a good deal of investor interest from our conversation last month. So I think, again, by our conversation, by the time we send out the next quarterly report there, end of July, We'll probably be at like 80% occupancy there. We'll have a new mortgage on it, and we'll be heading to another one of those great properties, which is fully stabilized, well-managed, producing good cashflow, and not taking up too much of our time, and just contributing to the overall portfolio.

Bob Irish

All right, why don't we round things out, talk about Port St. John. I'm anxious to hear if there's any more news on the outparcel.

Justin Ford

Yeah, so we contracted with an engineering company about that out parcel, which is on a busy highway. It serves as a stormwater overflow piece of land. So what would it cost to move it or to create an underground tank for that? Typically, their rough numbers come in at about a million to do that. But again, I know how these guys estimate. They look at these big industry books and all that kind of stuff. So a million to me is a good conservative number. It's likely we could probably do it for a bit less, 700, 800, maybe less than that. But even at a million, it makes sense because the leasing value of that property once ready for someone to come build is at least $120,000 a month. I'd say 100 to 120,000. So that's a 10% ROI on just doing that improvement. And the brokers can pre-market it now. We don't have to do the improvement until we get someone. We'll know that if we get someone a major chain or fast food or some other type of business that benefits from on-off traffic, we're right at a light. So that's a very big one. Then we can go ahead and we can either do that investment or they can do the investment and they can live rent-free for a while. And those are all negotiable points. So that's a very positive for that. And then the supermarket that's locked in for another seven years with five-year extensions after that, they're called Winn-Dixie. They're sort of a C-plus supermarket chain.

Justin Ford

They're a small chain. They may have, I don't know, less than 2,000 They went to banks a few years ago before we bought it, which is a good thing because they cleaned up their books. Long story short, they were bought out by Aldi's. And that's very important because Aldi's has about the 48,000 of 78,000 square feet. Winn-Dixie has 48 of 78,000. Aldi's will typically use only about half that. So they want to sublease the other half, right? So they're coming to us for all these negotiations. And with all these negotiations, we'll help them make money, but they got to help us make more money too. So we think that we're right now that the anchor always pays far less than everyone else, right? Especially if they're an anchor that's been there forever, right? So Winn-Dix has been there like 30 years. So where the average, rents on most of our bays are 14, 15 bucks. Like a small corner cap might be $30 a foot. The ones in between might be 13, $14 foot. The bigger ones like Planet Fitness might be 12. These guys are paying 550, 550, right? But if they, I mean, we knew that when we bought it, it's not a big deal. Also, they don't contribute to insurance. That's part of their contract. But we think that there's a good way that we could probably get them to maybe the equivalent of seven. Or maybe even 750 and maybe kick into insurance. So what that would mean that a property that now generates something like 600 NOI, we might be able just through the negotiation, boost that to 670, maybe 700, just through accommodating them. It'll be good for them. They'll cut their costs significantly and we'll increase our revenue. So it'll be a win-win on both sides. So we like what's going on at Port St. John. We're looking for more grocery anchored shopping centers. As well as apartments, yeah.

Bob Irish

Beautiful. So just one last thing about the out parcel. Are you going to relocate the storm drain thing or are you going to build on top of it?

Justin Ford

We're going to probably, I got to look a little bit more at the proposals, but we believe we're probably going to relocate it elsewhere on the property. That's probably what we're going to do. But either way, we know sort of what our maximum cost is, whether we go with tanks underneath and we build on top of it, or we just move it and we still build on top of that out parcel. But we know our maximum cost is around a million, and we know what the rental value is, which is $100,000 to $120,000. So it pencils out either way. Now that we have that information, we can market it without doing the work. It's only when we get close to an agreement we can figure out, okay, we'll do the work. And you'll pay X, so you'll do the work and you'll have a rent holiday for whatever, eight or seven years. But because it will affect future cash flows, of course, so if you, typically these agreements are for a minimum of 10 years, right? So if you increased your future cash flows by $100,000 over 10 years, the sale value of that property goes up significantly, right? So it's a, It's a really good extra feature to have to the property, adds a little value and could bring more traffic as well. We'll let you know how that develops over the next month or two.

Bob Irish

Yeah, I look forward to hearing how that develops. Justin, this has been a great call. It's just great news all around. I want to thank you for the update. Thank you for your expertise in these negotiations, in the purchase, the whole thing. I just can't thank you enough and I'll look forward to getting those docs sometime next week for the loan on Ascend.

Justin Ford
Excellent. Yeah. And again, if people send it just so it pops up, the subject line should be high yield first mortgage. Okay. If they do that, that way we'll make sure. And they can send it directly to me, Justin@paxproeprties. Bob, always a pleasure. And you were an investor in Melbourne. In fact, when I bought Melbourne, I called you when I saw it. And before anything, I said, hey, Bob, I just saw this property, blah, blah, blah. I said, I need a little down, I need a little earnest money or something like that. You kind of just made that happen right away before anything was signed or anything else. You just sent, I don't know if you remember that, you sent me a chunk of money, it was like 150 grand or something like that. It was a loan until we got to, so we could have show money at that time, right? Because this was nine years ago. We were probably a third of the size we are today.

So I want to thank you and I want to thank all our investors. I mean, when I wrote that offering for Melbourne, Again, it had prostitutes, pimps, drug dealers, and truck drivers. And in my offering, I believe I called it the Chateau Ghetto, because I wanted people to know what they were getting into. It was going to be a hard transformation. And that's why we created, the preferred return was 10 ½% and then it went up to 12.5%. So that meant that investors made 100% the first 10.5%, then later they made 100% of the first 12.5% before any split after that. And that's very high in the industry. Usually the industry is around six or seven. But this was a really, really thorny proposition by a junior developer. And the investors stepped up. It's been a great pleasure. You guys have sort of helped me learn this business. And I'm real grateful that we've made a bit of money together.

Bob Irish

Me too. Thanks again, Justin. Good talking to you. I look forward to speaking with you next month.

Justin Ford

Great talking to you, Bob. Thank you.