**Bob Irish Update 1/27/23**

**Bob Irish:**Bob Irish here today 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 what's going on with 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, it's great to have you back. How are you doing?

**Justin Ford:**I'm doing great, Bob. Thank you. You can't imagine better weather than we have in Florida right now.

**Bob Irish:**Don't even say it. You're just want to make people angry. No, it's fantastic. It's fantastic. Listen I guess the word for today, if we have a word for the day would be pivot. Our last call, we talked about the pivot that you're doing away from the hotel properties, converting them into apartments. So why don't we kind of pick up where we left off last month and I'm curious about what's going on there right now.

**Justin Ford:**Sure. So that's our two Tallahassee Hotels, which is the Seven Hill Suites which is my favorite. All our hotels are really good. Equus is amazing as well, but Seven Hills has just a spot in my heart. Not only is it beautiful, finishes in the public areas, but it's on these nine sloping acres and I just love it. But it was born right at Covid, as you know. So born, were launched, Covid hits, and that old story that most people know. If they don't know, they can go to Paxproperties.com, the updates, and they can read the past tales of the Seven Hills. Casa Bella, as you know, we also converted to an independent from previously being. So both of those have been struggling to come out of Covid, partially our fault.

We did not operate as well as we should. And partially, like I said, they were born shortly before or at Covid. So we've already got a pre submittal meetings. We covered that in last meeting. The city is all for it. They're gung-ho about it. What we're doing is called naturally affordable housing. So we're not doing like HUD and vouchers and all this kind of stuff. We could if we wanted to, but we're just priced at a point that underwrites great for us. But according to government guidelines, a studio in Tallahassee, if it rents for $904 a month, studio apartment, it's still affordable to people making 80% of the area median income, or the AMI. Well, it might even be 60%, but I think it's 80%. So it's called Naturally 40. And we underwrite that if our base rents at $7.95, we crush it.

So we make a tremendous evidence so forth. So we're actually recording occurring. The mayor, I reached out to the mayor. The mayor connected me with one of his folks. We met with people. We've already had the pre submittal meetings. Again, the mayor was a big fan of ours when we first opened this thing. He came over and he thanked us for everything we did, just before covid hit. So we have sales forces there, and I told you the last time we spoke that we have sort of a race. I said, folks on my hotel team, you sell enough hotel rooms, bring this back for profitable hotel. That's where we'll remain. Apartment team, you got our permits in place, you sell enough apartment house. So there's a race between hotel and apartments. And we can do sort of dual use. Right now we are starting to get some traction for the future March, for February, March.

We're still struggling in January and December as we have. But the good thing about January is I was up there and I was basically onsite for about two straight weeks, and I'll be up there pretty much indefinitely until we're at breakeven and above, starting March again. Right now, my son's getting married and I have some conferences I'm speaking, I have family and talent, that kind of thing. But when I was up there, especially during the weekend, I realized that we had this big, we had overstaffing issues. We had mismanagement issues. You saw them, but I saw them in a way where I was there, that I cleaned up our operational mistakes.

And I think it's in significant way. So we're going to be much leaner than we've ever been. And so that will help. At the same time we're starting to pick up, for instance, there's a robotics tournament in FSU and teams coming in from like Mexico and Japan, and we're booking them, they're staying at our thing. There's the legislative session is happening from, I think about now through the end of March. And there's a large legislative slash lobbying group that has indicated they want to stay for us. Like, I think it's up to 70 nights. I think 50 rooms a night. Huge, big contract. We didn't nail that one down yet. They're building, but it's looking good. They're building a Wawa down the road. The guy comes in, I talk to him.

Next thing you know we're signing up him and his construction workers. We have corporate headquarters or regional headquarters in Tallahassee, like Popeye's Fried Chicken. They train them. So we just had someone lock in Popeye's Fried Chicken, whether they're training them, they're going to be staying at our place. So we're making a lot of progress on this. But your sales group progress, it doesn't happen overnight. You make the meeting all that and you start booking for a few months out. So we're making the progress. The properties are in beautiful shape. They're operating leaner than ever. And we also had, I was on, maybe it was 10 days ago, I was with the engineers, the mechanical engineer, which is the HVAC and the plumbing and the electrical engineer, the architect, and our electrical and plumbing subcontractors.

And we talked it all through. We figured it all out. The plans are in process. We're expecting to be able to submit to the city perhaps before the end of this month or certainly by the beginning of February. So all in all, we are making progress. We're not where we are, where we want to be yet, but we're really moving. And we're seeing the numbers start to show up in February and March, and our plans start to materialize, I would say early to mid February at the very latest.

**Bob Irish:**Hey, that's great, Justin. Delighted things are underway, and I'll look forward to next month when you can kind of bring us up to speed as to how everything is going. But that's great. I'm happy the pivot is underway and I'll look forward to next month hearing more about it. Meantime, let's talk about the rest of the properties in Florida that are not in the fund. Where do you want to start?

**Justin Ford:**Well, let's talk about the hotels first. So they all have great results in December. Ocala ended with $274,000 in revenue. That's about $12,000 above its budget. Melbourne with $238,000 revenue, about $27,000 above its budget. No, I'm sorry. About yeah, $27,000 above its budget. Vero ended 268. That's about $73,000 above its budget. Ocala brought in $76,000 to the bottom line, I'm sorry, brought in $57,000 to the bottom line. Melbourne brought in $37,000 versus a budget of 31. So it exceeded, its EBITDA by 6K and Vero brought in a budget of $53,000 EBITDA, not an actual EBITDA of 53 versus a budget of just 19. So it's over $34,000. And we're coming into February and March, which in those areas of Florida are peak season. Most of the snowbirds and everything else.

So it's only looking better. When we look at January. We're projecting Vero to come in at $279,000, personal budget of just $197,000. And they're going to be such over budget and revive by $62,000. We're expecting to bring about $120,000 to the bottom line versus a budget of just 36. So like $82,000 over there. Vero is like a vintage wine. It just keeps getting better. I'm telling you, we've owned that. Come September, it'll be 10 years. And that's typically how we want our investments. And you've been in that one for a long time.

**Bob Irish:**I've been in that from the get-go. Yeah.

**Justin Ford:**From the get-go. Yeah. And then Melbourne is budgeted at $255 this month, and we're expect to come in at 294. And so over by nearly 40. And the evidence, we're looking at 97 versus a budget of 66 or over about 31. Equus, our newest hotel revenue budgeted at 316. We're expected to come in at 322, about 6 grand over. And the EBIDA is coming in right in target, right around 120. I think we're about $125,000, about $8,000 over budget. So all those hotels and destination markets, we've maintained them all. They are all performing. They're beating their top and bottom lines. There are some exceptions where we beat the top and the bottom, doesn't come in exactly where it should. But the lessons that we're applying up in Tallahassee, where I saw the over budgeting mistakes, the overstaffing mistakes are dramatically corrected that let go, say goodbye to a very nice general manager, but who wasn't up in there.

Right now, I'm the acting GM when I'm there. My regional is the acting GM when they're there. I will not. And I also hired a guy who up in Tallahassee he worked for me. He managed one of my apartments. He has a long history. He's about my age. He used to do Radio Shack sores and stuff like that. And now he's been in the senior living space, and that's part of what we may do at Casa Bella and so forth. So he manages the tapestry across the street from us. And I've hired him back. He's joining us in about three weeks. He just gave his notice, and he's already got a lot of things in the fire. But with all the things we learned, even these budgets are a successful hotels, we think going forward, we're going to continue to blow the top line out of the water.

And we think we'll operate more efficiently, more smartly, smarter, and we'll even increase our EBITDA that we bring from that higher revenue. So I really love where we are with the stabilized properties and especially our destination hotels in Florida.

**Bob Irish:**Yeah, those three hotels are firing on all cylinders. That's great. Let's talk about Renaissance.

**Justin Ford:**Yeah. So Renaissance is the last non fund property we're talking about. That's the 168 unit apartment complex, which we bought in mid 2017, put tons of money and so forth. It's been very successful. We've returned, I think it was 60% of investors capital last year. And we have a great long-term Fanny Mae loan and another 4%. So last month in December, the Renaissance on a budget of $177,000 in revenue that brought in $180. And on a budget of $94,000 in net operating income, it brought in $100,000. So on budget. And this month we're on target to bring in 186, even a little bit higher. And our EBITDA is budgeted a little bit over $100,000 versus a budget about 94. So the only thing better than a property that you buy. There's a property you buy right. You've renovated and it's stabilized, and now you're operating. And that's the story on most properties in Florida.

**Bod Irish:**Yeah. Okay. Shifting gears, let's talk a bit about the properties that are in the Pax Diversified income fund.

**Justin Ford:**Okay, great. So I'll start in Florida, since there's only one there and the other three in Oklahoma. One in Florida is the grocery anchored retail center. We remain at a 100% occupancy. We're consistently bringing in the budgeted numbers. Win Dixie, I believe they're undergoing, I think they've confirmed now sort of an upgrade to the store. Make it a little fancier, a little posher. They're developing a community right behind us. We bought it for 7.8 million, I think, and I went a little above asking. So it was a great deal or less than 100 foot at a great area in coastal market in Florida. We haven't put a lot of money into it yet. And we can probably sell for two and a half, 3 million more than we bought it right now. Maybe more.

I mean, even in today's interest rate market, we just got such a fundamental value there and a real growth market. And so the one thing I really want to get done is get those roofs done, we would pumps, but the supply chain issues and other things. We finally think we're solving it. We think we're going to get the roofers on there from our own roofing company. We've done a couple 100,000 square feet of roofs ourselves, and when we're done they don't leak. So we're working out the supply thing, and we believe end of February we should probably be on those roofs, getting those roofs done. So I'll be very happy with that. And then we'll invest more time and beautifying a little bit.

There's a dividing wall on one side of the property, just a gray old wall that I want to kind of clean up and put murals on. We want to install a little more music where you're walking, improve the lighting a little bit. So we hope to get all that underway by the end of this first quarter. But PSJ is going very good. Our only shopping center so far, but maybe the first of quite a few.

**Bob Irish:**Oh, that's great. Let's go to Oklahoma.

**Justin Ford:**Yeah. So Oklahoma is great. Tulsa is our stabilized property. The first one we did, 91 units, the Apex. We turned that sad duckling into a lovely swan, and it is hitting its numbers. I don't have them in front of me, but I was checking before. It's basically hitting its numbers. It's delivering the bottom line. We're talking about refinancing. I mentioned with you last month, a HUD loan because HUD gives you the best rates and because you get the best rates and they're regressive on their debt coverage, they have a lower debt coverage requirement, none of those may. You can end up with the greater proceed, you want to pull some of that equity out and redeploy in another investments. But HUD is being a government basically regulated agency.

They have all these requirements. And so the appraisal is projecting a much higher real estate value taxes than we think will incur. There are some other issues they have on all these. So now the proceeds, we're expecting to pull about 1.2 million. Now it's maybe going to be 800 or 650, we're not sure. So I was talking to them yesterday and I have a great relationship with the folks who are doing this. They're at North Market and then they're great. I said, look guys, not to waste your time, but pulling out 1.2 million for us was marginal anyhow. It was just right there because with HUD you only get one bite of the apple.

You can't go out later and refi and you can't do what's called a supplemental loan. So, which you can't do with Fanny or Freddy or you can do with regular banks. It's called an earnout, where if you grow your equity, you get a little more equity out over time. So I said, look, we're going to work at dual track. We're going to pursue other lenders while you do your thing and see if you can give us back up to 1.2 million minimum extract proceeds. And they understood it and they also sourced that. So they're going to try to give us some alternative as well. So that's going well, whether we end up with the HUD or with the other ones, the interest rate environment is going to be very interesting over the next 45 days. What happens with that? Are they going to do the 25 basis points and what is the long end? How's it interpreting that?

Because even when your short end moves up, sometimes your long end continues to move down because they feel that the short term is worth the trouble and it's being ironed out. So we will know exactly how we refine in about a month. But I will tell you that, and a lot of the reports, we are getting the appraisals, the asbestos test, the engineering, all that stuff, all that will be usable towards another lender. So that'll be a good thing. But in the meantime, it's performing two budget and even beating a little bit. So we're quite happy where Apex is.

**Bob Irish:**Great. Good news on Apex. Let's talk about elevate.

**Justin Ford:**Yeah. So Elevate and Ascend. Elevate is in Oklahoma City, Ascend is in Moore. Those are our two properties under construction. So Ascend has been like Renaissance was, it's been a real cracker jack box going behind the walls, discovering new prizes and surprises and moving on. But we've done 95% of the heavy lifting all the exterior, which had this ugly shingles going from the rooftop almost all the way to the floor. Again, it was like the bearded man at the circus.

**Bod Irish:**I hate those mansard roofs

**Justin Ford:**Yeah. But most mansards are just on the top, like the French ones. And that's charming. But they ran it all the way down. I don't know what people were doing in the 1970s. I was like only 10 to 20 years old in the seventies. So I'm not responsible. But whoever's like older than that, you guys have to answer for that generation because there's something weird that happened in the 70’s. All the rooms are small and tight and everything, anyhow. So we're correcting that. And it looks beautiful. The outside is almost basically done, the scaffolding is away. We've returned the boom, the lift and all that.

So we're at that stage. And of course all the heavy plumbing, which is a big issue underground behind walls, digging inside apartments, breaking concrete, that's all done. So we think this last lap is going to be our fastest lap. So we have something like 80 of the 126 units done close to that. Most of them hand it over. These last 46 should go. We're thinking we might be done in four months. So we're gaining some wind there and the reception by the market is extremely good. We're getting our proforma a little bit more.

**Bob Irish:**Okay, good deal. And what else do we need to capture?

**Justin Ford:**Yeah, I'm sorry. The last one is that former Mansions, which we call Ascend. And so that one we have 52 units under construction. So we have 146 units there. And again, we took care of a lot of the heavy stuff first. There was all this plumbing issues. The heating and the cooling was provided by what's called the chiller. And that chiller system was in a maintenance building with pipes running to the 13 residential buildings with what's called the chiller tower and boilers inside. So you got all these old pipes running through all these old buildings with all these problems. And we've dealt with them and we knew that going in and our water bills are way down or just tremendously down. They were schizophrenic before, they'd be like 20,000 one month and they'd be like 2000 the next month when they should have been like 5,000 or 6,000 in place, right?

And we told the city your meter is wrong. And they said, oh no, it's not, it's new. I don't care if it's new. It's new and it's wrong. You can't tell me that you are showering all day this month. And then they're not showering at all the next month, right? So finally they fixed that and we fixed all sorts of pipes. So we did, again, most of the heavy lifting work and all the shutoff valves, all these kinds of things. So now we're in the units. In the units we have 52 units that are probably, I'm going to say 80% done or better. We really only have two permitting aspects of the projects. The AC has its own permitting, and then the electric that's connected to the AC has its permitting. So you have a rough inspection, electric rough inspection on AC and a final inspection on both.

And then there are the CO the certificate of occupancy for the units. So basically there are like five per units. So you multiply it out, you have over seven inspections. But if you go to Renaissance, we probably had over 5,000 inspections because we had drywall, insulation, fire proofing, all that kind of stuff. So this is a relatively simpler project. And we're moving those 52. However, I wanted to move faster. I really wanted to get us going a bit more. So I recently contracted with a group out of Chicago. In fact, I'm going to have to call them in a couple hours, see if we can finalize things. We're going to pay more per unit. We're probably going to pay about 50% more than we are now. And this is on the interiors. We finished the exterior and all that.

But these guys tell me they can deliver. And these guys have a track record that they're recommended to me through a business group I belong to the Entrepreneurs Organization for the last like seven years. It's an amazing organization. Absolutely incredible. I've learned so much. I have so many interesting friends there. So they're recommended through that. And these guys do like thousands of units. And because interest rates are high, some of these construction companies slow down. And so now they're coming to us, they're trying to pick up extra business. So we're negotiating but they say they can turn five to seven units a week, after the ramp up period. I mean, if they're doing that, 10 weeks out we're at about, let me call it three months from now, we're about done. Three, three and a half months from now because they would be starting in early next week.

And that's interesting to me because even though you're spending more, if you're getting it right, done and they have a better process than we do. One we'll learn from the process ourselves for in-house group, and we'll move that in-house group to finish all outside work, right? And our in-house group will also, some of the excess will go to elevate to help accelerate Elevate's completion. So we'll learn that process and when we do that process in house, we'll save money. But by getting the project done quicker, of course you get your income in sooner. You offset it.

**Bob Irish:**You got the units online faster and that's what it's all about is revenue. Long-term revenue.

**Justin Ford:**Yeah, exactly. Ok. So we like where it stands. So far so good it all works out roughly according to plan by the end of May, both those will be done and all properties will be stabilized.

**Bob Irish:**Alright. Well, Justin, a few calls ago we talked about some secondary debt offerings and we had one, I think in Ocala. We had one with the Renaissance. And I know all of those sold out and these had an inflation protection. I'm participating in those. But I understand there's another one coming up here that maybe some folks might be interested in.

**Justin Ford:**Yeah, that's our oldest hotel. That's the Vero Beach and the suites we were talking about. In December, it beat budget by $34,000. And in January we think it'll beat its EBITDA by $80,000. I mean, it's really, really tremendously performing. But we want to tract some temporary debt we gave to it to, to finish some renovations that are helping you perform so well. Because you got to update new properties every few years. And we still have some on that. We've already filled, I don't know a few hundred thousand of it, but we probably have some around 800 to $900,000 left to fill on that. And people email me and they can just say whatever promissory note, and the subject line, we'll find it.

It's with a partial inflation hedge. So that means, during the time they have the note, if inflation is 10% or more, we'll pay them at least 10%. So we won't protect them above it if it's 15, but if it's 10, but the note itself has 8% plus a point, and then it goes to 9% plus a point. And so when you do the math and there's a minimum earned interest, it kind of pays out somewhere between 8 and 8.7 to 10% depending on when the payoff is and how inflation shakes out. But now and again, I'm not trying to crystal ball things or prognosticate too much, but now with the Fed moving to the 25 basis point range with the cost of some goods coming down with all these layoffs happening in the labor market sort of easing up, this note might be more attractive than it was even before because this eight or seven, whatever, 8.7 to 10% might yield more after inflation than we even expected. And it comes with the personal and corporate guarantee. So if anyone is interested, they could just shoot an email to, I guess shoot it to me at justin@paxproperties.com and just put promissory note in the subject letter and we'll send him the information.

**Bob Irish:**Well, that's exciting. That's a great opportunity for the folks listening to this. I know I've been very happy with my secondary debt offering and the money just keeps flowing in. Got to love it. Got to love it. Anything else, Justin, before we sign off?

**Justin Ford:**No, it's always a pleasure to talk to you, Bob.

**Bob Irish:**Alright, Justin, well keep up the good work. I will look forward to talking to you next month.

**Justin Ford:** Thank you Bob.