

**EPIISODE 107**

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**[INTRODUCTION]**

**Tejas Gosai** (00:00:22) - Ladies and gentlemen, welcome to Real Estate Investor MBA. My name is Tejas Gosai and I've had the honor of helping hundreds of investors achieve the American dream by creating generational wealth through real estate. I've spent the past few years interviewing the most knowledgeable experts I could find in the business to cut your learning time and conquer the hardest subjects in the game. Check out Rhema, which my team and I have packed with over 75 interviews and free access to our real estate roadmap, webinars and publications. If you're listening, I am rooting for you and you're already on your way to financial freedom. Cheers and happy hunting.

**[INTERVIEW]**

**Tejas Gosai** (00:01:12) - We have Caleb here with us today. Thank you for making it. Let's get right into it. Tell me about yourself, what you've been doing. You have grown tremendously and it's a good story. Do you mind if I ask how old you are?

**Caleb Johnson** (00:01:21) - Yeah, I'm 25 now.

**Tejas Gosai** (00:01:23) - 25. I'm in my 40s. And you got a big jump start on old folks like me. And you have the ability to use AI and fight interest rates and all this fun stuff. So tell me quickly about yourself and how you got here.

**Caleb Johnson** (00:01:36) - Yeah. Tejas, Thank you so much for having me really quick. I started investing when I was 19. Have five years of restaurant management background. That's my career and I do real estate investing full-time. Started in residential with a four-plex in a house hack and a C-minus neighborhood. Really got my hands dirty, literally. And then three years into my journey on residential,

decided to scale into larger apartments. We've done six deals a day, including a retail facility, and just been very blessed.

**Tejas Gosai** (00:02:07) - Did you say six deals a day?

**Caleb Johnson** (00:02:08) - No, six deals total probably in the last three years.

**Tejas Gosai** (00:02:12) - Okay. Was like, man, that's crazier than anything I've ever heard. But no, that's fantastic. So you've had a lot of growth and you've done it in a short period of time. And relatively speaking, a lot of this is since Covid.

**Caleb Johnson** (00:02:21) - Yeah, that's right.

**Tejas Gosai** (00:02:22) - Which is a difficult time period and there has been no consistency whatsoever. And we can talk about this with this airs very quickly after this interview. Interest rates, everybody is scared the Fed is an election going on. How do you navigate that?

**Caleb Johnson** (00:02:40) - Well, right now it's pretty challenging. Our deals aren't penciling like they were when interest rates were in the threes and the fours. And so we're really focusing on offerings that we can get agency dead on. So that means that the occupancy for the last three months needs to be 90% or greater from the time that we close. Otherwise, we're going to go bridge or try to get creative, you know, seller financing, if the seller is even willing to carry a note for half \$1 million on a \$3 million total loan amount, that will help us a lot.

**Caleb Johnson** (00:03:13) - Just make numbers work so we don't have to pay him equity on the back end. And we're just trying to get creative, stay in front of local banks that can maybe offer us more favorable terms.

**Tejas Gosai** (00:03:24) - That's cool. Let's pick some of that apart. So to be able to mention all of those things, you are looking at a lot of deals and then you have to pick from your artillery of how do we get this the right way to match the underwriting in your penciling? How many deals do you look at in like a week or two weeks?

**Caleb Johnson** (00:03:40) - You know, I just got back from a mission trip to Scotland, so I'm still kind of out of it, but over probably an average, I'd say at least 6 to 10 deals a week.

**Tejas Gosai** (00:03:50) - That's incredible. And then you said penciling out. So are you running with like a 7% interest rate, 20-year AUM?

**Caleb Johnson** (00:03:58) - Yeah, probably 30-year high. Six interest rate, six-point 9:30 AUM interest only for maybe 24, 36 months. That's kind of what I'm seeing on the agency side at least.

**Tejas Gosai** (00:04:10) - Great. Thanks for sharing that. It's awesome to talk about how people think have pretty smart people on the show and it's real estate investor, so I prefer nerdy content beyond anything. Yeah, me too. Thank you. When you're penciling the deals. So 5 or 6 deals, are you writing on one of them? Two of them. What's your offers getting through to the seller?

**Caleb Johnson** (00:04:30) - You know, I don't have my KPIs in front of me, but last year I was probably submitting an offer maybe two offers a week, and now it might be two a month, so one every other week. But that's a lot better compared to the start of this year. I mean, we weren't seeing really any deals at all, so I was probably underwriting maybe two deals a week at the start of 2023.

**Tejas Gosai** (00:04:52) - Thank you for sharing that, man. That is very cool. So just for listeners, what is a KPI?

**Caleb Johnson** (00:04:58) - Yeah, KPI is a key performance indicator. So I just track really anything in my business compared to how many investors I talked to, how many podcasts I'm on, how many brokers I talked to, how many deals I underwrite, and how many offers I actually make.

**Tejas Gosai** (00:05:14) - That's very, very cool. Where are you focusing geographically?

**Caleb Johnson** (00:05:19) - Geographically, Arizona, Texas, Oklahoma and Alabama?

**Tejas Gosai** (00:05:23) - That's great. So what's your buy box? How many units? What's your preferred property?

**Caleb Johnson** (00:05:29) - The preferred property is 75 plus units. And honestly, just my portfolio now is probably from 16 to 30 units to maybe pushing 40 units. That's what I own today. Now, the reason I've scaled to 75 plus, that's what I tell every broker. Now 75 plus units, is because that probably 15 units to 70 units I found at least to be very challenging when it comes to property management, because there's a lot of property managers that can focus on residential, maybe sub ten units on multifamily and they're great at it. And then you also have the bigger players that focus on 100 units plus. And so you have this kind of limbo stage from 15 to 70 units where there's not a lot of, at least in my experience, good quality property managers that just focus on that. And so because it's kind of its own separate asset class, right, compared to the singles, the small multi families and then compared to the bigger 100 plus unit properties.

**Caleb Johnson** (00:06:26) - So that's why we focus on 75 plus units and then BC class neighborhoods, workforce housing, usually 1970 vintage or newer and in growth markets. And so that's why we're really investing into those markets that I shared. They just have a ton of forecasted population growth.

**Tejas Gosai** (00:06:45) - So cool. Let's talk about those markets then and demographics, because you are definitely honed in on that. Like what do you look, for just for the listeners, when you look at an area territory you're super focused on how much should people be making on average per year. And can you get into some of that granular stuff?

**Caleb Johnson** (00:07:06) - Yeah, the first thing that I look at is the Bureau of Labor Statistics and they have a well, every city, every county, they look at forecasted job growth for ten years. Some kind of started in 2018, then went to 2028 and then others 2020 to 2030. And so I went down to every county, every state and actually recorded. Okay, How much on a percentage basis is this forecasted to grow? And then how many people how many bodies are actually looking at that? Right.

**Caleb Johnson** (00:07:38) - If I don't want a 100% increase, but it's only from 1000 to 2000 people, that doesn't really move the needle. So that's the first thing. And then, of course, looking at the state, making sure it's a red state. I've invested in New Mexico, which is a blue state, and I'm kind of regretting it now. It's just more headache and the deals are still fine, but it's just more of a pain in the rear end to actually do it and manage it. And then we focus on cities in those states that have a population of usually 100,000 or more. There's some flexibility and all of this is really subject to the investor. Some people want to focus on tertiary stuff, maybe sub 50,000 people in population, others

want to focus on, you know, the big ones like Arizona, DFW and Florida, and that's all they want to look at. So I think it really just comes down to what the investor wants, kind of what their buybacks, what their ultimate goal is, and then working backwards and just saying, okay, if this is my goal, how do I get there? What do I need to do to actually make that happen?

**Tejas Gosai** (00:08:43) - Man, you're very eloquent.

**Tejas Gosai** (00:08:44) - I appreciate it. You know, this stuff gets transcribed, which is cool. It turns into a bunch of words that people read. We turned it into an article on LinkedIn and like to reuse everything.

**Caleb Johnson** (00:08:56) - Wow, I'm talking too fast and man.

**Tejas Gosai** (00:08:58) - No, that's my favorite thing. I'm trying to get as many words as possible that we can, you know, turn into something. One day I bring that up because, you know, what you're talking about is very specific. And I've been kind of building up to this question. You do work with investors and everything you said for the whole first half of this is because you have to measure risk and mitigate risk and invest in the right assets. And so there's the other side of it is there's a whole batch of people that you represent and you work with and they like what you're saying and they see returns. Can you start talking about that and how it's been for you as a 25-year-old, too? Because like some folks feel like you need to have some gray hair to raise a bunch of money, but investors can start anywhere.

**Tejas Gosai** (00:09:44) - And you've clearly done a great job.

**Caleb Johnson** (00:09:46) - Yeah, well, appreciate that. I've been blessed with a ton of great mentors in my life and I thought that same thing, you know, and I had a conversation with a gentleman who was 27. And again, I'm 25, and I said, Man, how do you raise capital? Like, I feel like I can't raise capital as a young professional. And he said, Caleb, I've raised \$15 million before. I was 25. And I said, Oh, well, there goes that limiting belief out the window on the return basis. We're pretty industry standard, like a 7% targeted 7% cash on cash return, 20% R and A2X equity multiple. So if someone invests 50 grand, then they can expect to receive their 50 that they invested plus a 50 on top of that from cash flow and equity on the back end.

**Tejas Gosai** (00:10:32) - Over what period of time?

**Caleb Johnson** (00:10:33) - Usually 3 to 5 years, pretty industry standard. And I talked with a lot of investors too, and I've had experiences with investors where they're used to the stock market, right? So they can invest 20 grand and next week they can check, okay, am I down money or did I make money? And so sometimes investors will invest with us and they'll call me every week and say, hey, man, how's how's the deal going? And so we are kind of choosy with who we do partner with.

**Caleb Johnson** (00:10:58) - But at the same time, I understand this is an education play for a lot of people who might want to do what I do. So I'm happy to walk with people in that regard as well, though.

**Tejas Gosai** (00:11:09) - Very cool. What type of investors and how do you, is it a REG-D, REG-A fund per property, or how do you do it?

**Caleb Johnson** (00:11:18) - Usually syndications. Ours are a 506-B so that means we have to have a pre-existing relationship. And then we've structured some of our deals where or at least I've seen people structure their deals where they'll start with a 506-B, but then they'll switch to a 506-C if they need help raising it more. So they'll be able to mass market it. But ours for the most part are all 506-Bs. So we need that pre-existing relationship.

**Tejas Gosai** (00:11:44) - Thank you for sharing that. So the difference just for the listeners is you can either advertise publicly or not and have to have a specific type of investor that's accredited or unaccredited, right? That's right.

**Tejas Gosai** (00:11:57) - That's very cool. And so some of the size of the projects that you're looking at number-wise and units like specifically, can you share one in Alabama or one of your?

**Caleb Johnson** (00:12:08) - Yeah. Right now I'm actually looking at one that's 67 units and I know I just harped on how I only want 75 plus. It's kind of right on that cusp. So 67 units in Tucson, Arizona and we already own an asset there. So we like that for economies of scale. And so we're just digging into the numbers right now. Tejas, I don't know what your role exactly is in syndication, but I'm on the acquisition side. So underwriting broker relations, I'm looking at a lot of trash to find the gold. (Tejas: Deal hound.) Exactly. So what I look at first is if I enter in the information T12 rent roll projections and if I need to come down by 20% of the purchase price and the numbers still don't pencil. I don't even waste my time. You know, after I've invested about 60 minutes, 90 minutes, I throw it in the trash and move on.

**Tejas Gosai** (00:13:02) - Sweet. What type of vacancy and property management do you factor in when you're looking at a property?

**Caleb Johnson** (00:13:09) - Yeah, we look at if the property already has on-site like an office, because if it doesn't, if I'm buying 100 unit property and it doesn't have an office, then I'm going to need to convert one of those units to an office. Now that's only 1% vacancy on 100-unit property, so it's not that big of a deal. But we do look at that and those things. We want to know kind of the submarket. For example, if I'm in Oklahoma, this is pretty specific, but Oklahoma, Norman, Oklahoma is a great market, but it's a little more maybe bougie compared to Oklahoma City, which means my property manager wants more of an on-site presence than normal. So maybe instead of 20 hours on-site staff, they might want 30 hours, which means I need to increase my payroll expense, which I mean that compounds that bottom line NOI. So that's affecting my valuation, and my cash flow.

**Caleb Johnson** (00:14:08) - That's a big deal. Now, if I just thought it was the same as Oklahoma City and Norman, they were the same. That might affect my vacancy once we buy it, right? Might trickle down affect a lot of things. I mean, getting into the weeds, those are conversations people want to have with their property managers. And at the same time, if there's investors listening to this and they aren't confident that their sponsor is asking these questions or the property manager working with that sponsor, is that experience to know this, then that might be a red flag, not 100% of the time. Right, but just something to consider.

**Tejas Gosai** (00:14:46) - Yeah, you definitely want to be careful in this business and how crazy Facebook advertising and I don't know how some people stay legal. So I manage a private equity fund. I spent a lot of my time. I'm on the property side, so I own a commercial real estate business and that's my foray into private equity. But it is crazy out here and to see what other funds are doing and to see how some funds that had variable rates and over the past few months and years just got plummeted.

**Tejas Gosai** (00:15:27) - That's difficult. You know, no one wants anyone to lose money. But, you know, the health of a fund, the health of an operator, you know, sponsor your some of the things that you're saying really matter a lot. That's how you weather this, which is the goal. Let's switch to that. It is a crazy time. You're underwriting. What do you think is going to happen six months, one year from now? No more than that. Want your prediction?

**Caleb Johnson** (00:15:54) - That's a great question. And I ask everybody that I talked to the same question as well. And no one has a crystal ball. Right. But I see 6 to 12 months. And what I'm hearing from other really big players who have been in it for over 20 years. There's a lot of bridge debt coming due. So there's going to be a lot of blood in the water. And I'm already seeing more deals come on the market where they're whisper price, let's say they bought it and in 2021, they bought it for 15 million.

**Caleb Johnson** (00:16:22) - They're asking price right now is 13 and that's what they're selling it for. So they don't lose more money because, you know, in 2008, 2009, it was like catching a falling knife because you would, let's say, for a single-family home, you're listing it at 300 and you'll have it there for a week, but then you drop it down to 290, then next week, 280. And so some people, they're just saying, Hey, I'll sell it for 220 and it's such a big deal, someone's going to buy it. So that's what I'm seeing.

**Tejas Gosai** (00:16:49) - What about rates? What do you think these rates are going to be at in Q2, Q3 next year? Right before the election?

**Caleb Johnson** (00:16:57) - I listen to Pittsford. They're a great mortgage brokerage and they know a lot more about it than I do. So we're probably seeing a pause on rate hikes, maybe. I think the expectation for another 25-point basis hike in November is like 30%. And so that's kind of where we're at.

**Caleb Johnson** (00:17:19) - So I think we're going to start cutting rates. But I do see a recession in 2024 looming. That's what I'm expecting to happen.

**Tejas Gosai** (00:17:27) - Couldn't agree more. It's cool to at least agree on the status quo. Like the status quo is better than the mayhem that could ensue because of this election. And I'm not political, but it's just like by nature, our airways and internet are taken over by political advertising and nonsense that you have to drown out in the real estate business. You have to stay really focused and try not to lose your mind, which most people do. That's right. So mentorship, who helped you? How did you get here? Like there had to have been one pivotal person that helped. Can you talk about them or mention them if you want?



**Caleb Johnson** (00:18:10) - Man I think overall that's been a huge aspect of my growth. You know, in every stage when I was in residential, I found a mentor. When I started in commercial, I found a mentor. When I wanted to raise capital, I found a mentor.

**Caleb Johnson** (00:18:23) - And so that's what I've seen a lot of successful people do. So if listeners you want to be successful, get into a new space, find a mentor that's 6 to 12 months ahead of you. And so I think a mentor that I first found was at my first real estate meetup, and he was exactly that, just about 12 months ahead of me. Long story short, I thought I would raise capital. I thought that would be my toes in the water. And it didn't go as well as I had thought by any means. So then I had to pivot and focus on acquisitions because I knew starting off with really no capital to invest in a \$50,000 program, but had time. And so I could call brokers all day and learn how to underwrite and then bring deals to someone else. So if you can add value to someone that's 12 months ahead of you, if it's deals, limited partners and I've given limited partners away, meaning when I was starting off, I'd say, Hey, so and so, I know you have some money, you want to invest.

**Caleb Johnson** (00:19:21) - Here's Mike. He has a deal that I think would be a good fit for you.

**Tejas Gosai** (00:19:24) - Why do that?

**Caleb Johnson** (00:19:24) - It makes me know that I'm not a tire kicker and that, hey, teach me underwriting and I'll bring you LPs.

**Tejas Gosai** (00:19:33) - I was an expired listing cold-call real estate agent and did door-to-door AT&T sales in my 20s in Boston. Like such ridiculous stuff. Thank you. Now I'm old enough to like mention those things, but it really helps a lot to have that type of sales under your belt. You're always selling something. How was it for you and how many hours were you on the phone when you were brokering those deals at the beginning of your career?

**Caleb Johnson** (00:20:05) - Wow, great question. I'm trying again to go back to my KPIs to remember the early days, and I think I would call 150 brokers a week. I think it was at least, I don't know, maybe 400 a month, something like that. And that was my goal. And I started to, if I knew I was going to invest in Arizona when I was starting, I would go to like North Carolina and call brokers because if I mess up there, it's okay, right? Because I know I'm just going to dial it in.

**Tejas Gosai** (00:20:32) - Yeah, I definitely practice in front of the mirror and watched YouTube videos and all that kind of stuff. So how does someone invest in you or your company or get some guidance to share with the listeners?

**Caleb Johnson** (00:20:47) - Yeah, appreciate that, and thank you again, Tejas for having me on. I mean, I've enjoyed this conversation and like you nerding out it's it's definitely fun. So I'd say there's two ways if you want to invest passively go to [Red Sea Capital Group](#) or just have a conversation with me. There's a call now button and you can just have direct access to my calendar and at the same time, if someone kind of wants to get into the space, right, they want to be like Tejas or Caleb and learn more about that, I offer accountability coaching. So again, if you go to Red Sea Capital Group and click [Accountability Coaching](#), schedule a call and I'm happy to walk through that with you guys.

**Tejas Gosai** (00:21:26) - Very, very cool. And everything's going to be in the notes. We're on iTunes, Spotify, Stitcher.

**Tejas Gosai** (00:21:33) - I think it's Stitcher. I don't know.

**Caleb Johnson** (00:21:34) - There's a lot of them, man. I can't even say, so.

**Tejas Gosai** (00:21:37) - Yeah. Google Play, iHeartRadio like we're part of Podomatic, do you use that?

**Caleb Johnson** (00:21:42) - Maybe I use Buzzsprout. I don't know if you use Buzzsprout or not, but they go to like 15 automatically and so that's great.

**Tejas Gosai** (00:21:48) - I have this awesome podcast manager, her name is Abby and I literally don't know sometimes what she's doing and it's just all over the internet.

**Caleb Johnson** (00:21:57) - That's awesome. Shout out to Abby.

**Tejas Gosai** (00:21:58) - Yeah, shout out to Abby. Love your mission, though. Love your stuff. I think it's really important. I like to have folks on that have the underdog story. You know, if you're like the wolf on the hill is never as hungry as the wolf climbing the hill and keeping that momentum going. So last big question. How do you stay motivated? Do you go to the gym at 6 a.m.? Like, what's that stuff that you do that normal people don't do to have success that you have?

**Caleb Johnson** (00:22:25) - Man, I'd say it starts with whatever fills your heart, You know, that could be family for some people.

**Caleb Johnson** (00:22:31) - Gym, working out for me, it's my faith going to church. I'm Christian and I work with seventh-grade boys. Sundays in the mornings, and then in the evenings we have a three-day camp coming up and I'm involved in a mission trip. So that definitely is what fills my heart.

**Tejas Gosai** (00:22:44) - That's so cool. You said you just came back from a mission trip.

**Caleb Johnson** (00:22:48) - I did, yeah to Scotland.

**Tejas Gosai** (00:22:49) - Scotland? That must have been worldly. Like legendary. Have you been there before?

**Caleb Johnson** (00:22:54) - No. Yeah. First time. And I'm from, I'm an Arizona boy, so it's rainy over there. And I love clouds. I don't get any here. Rolling green hills. Amazing people. Just such a great experience.

**Tejas Gosai** (00:23:06) - That's awesome. I totally think faith is something that drives us in the real estate business. You have to be crazy to be in this business or, you know, religious to stay sane sometimes or do agree, family matters. Thank you, man. I love your style. I love what you're doing and appreciate the time.

**Tejas Gosai** (00:23:24) - Thank you so much.

**Caleb Johnson** (00:23:24) - Thanks, brother. Thanks, guys.

**Tejas Gosai** (00:23:26) - Take care. It's Real Estate Investor MBA [rei.mba](http://rei.mba) There's a ton of free stuff on our website. And check out Caleb. Cheers.

**[END OF INTERVIEW]**