EPISODE 108

Lane Kawaoka (00:00:00) - Take inventory of what you have. If you're already $1.5 million plus and you're making a good six-figure $200,000 and above, you’re an accredited investor. It might be better for you just to go on the passive side and start from there and do the math for yourself.

[INTRODUCTION]

Tejas Gosai (00:00:18) - 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: (00:01:07) - Today we have Lane with us. Lane Kawaoka. Did I get it right?

Lane Kawaoka (00:01:11) - Got it, got it.

Tejas Gosai (00:01:12) - Powerful last name. Powerful man.

Tejas Gosai (00:01:15) - I looked at your bio. There is so much to talk about. Again, thank you for being here. Your expertise is needed. Have my co-host a day. Who's going to be helping me along? Lane, welcome.

Ade (00:01:25) - Thanks for being here, Lane.

Lane Kawaoka (00:01:25) - Yeah, thanks for having me, everybody. Aloha. Aloha.

Tejas Gosai (00:01:28) - Yeah. For sure. Please tell me about yourself. Some of our listeners are newer, some of them are veteran. But I'd like you to take the time. Tell us your journey, your story, and share some of the big numbers if you can. Yeah.

Lane Kawaoka (00:01:39) - Mean today if we've owned over $2.1 billion of assets, mostly apartments, so maybe 10,000 units or so, 65 plus projects. But yeah, you know, it didn't always start off that way. I was not too long ago graduated from college in 2007, and I call it this. The linear path was taught to go to school, study hard, save my money, do that 401 stuff and buy a house to live in.

Lane Kawaoka (00:02:06) - And that was kind of the path I was on for a little bit. And then a couple of years after college, I bought that first house to live in and then just on a whim, kind of just rented it out because, you know, I was a single guy in my early 20s, and it kind of was silly to have this big house to myself, or I was only home on the weekends because I was traveling all over for work. And that was kind of where it all started. That was where the first rental came from.

Tejas Gosai (00:02:32) - So you're professional too. You're an engineer, right?

Lane Kawaoka (00:02:35) - Yes. Industrial engineering undergraduate and then master's in construction management. So legendary.

Tejas Gosai (00:02:41) - So this is a very short time period. And I mean relatively speaking, like you've obviously done a ton but mean there's some folks who listen to our program they like still can't get their first deal. They've been thinking about this for years. They're doctors and lawyers and folks that have the capital to be able to do it.

Tejas Gosai (00:03:00) - So you took a major jump here and from that first rental. So how did you get into the next parts? And then realizing you had to scale and how did you move the ticker.

Lane Kawaoka (00:03:10) - Yeah, I mean, this is actually where things were really slow for me. So 2009 bought that first rental. And at that point, the game plan was just to use 20% down payments to buy these rental properties. I was buying in Seattle, Washington, which was a primary market still is today, where your rent-to-value ratios just are horrible, under half a percent. But still, I bought that duplex that was more of a big-class rental property, a little bit on the lower end, but it still didn't really hit that 1% rent-to-value ratio. And then I heard about all these turnkey rentals. You know, everybody talks about sort of like unicorns where supposedly somebody rents rehabs it for, you know, appliances do flooring, puts a new plumbing, electrical, and then some turnkey providers will even put a tenant in there for you.

Lane Kawaoka (00:03:54) - And I was like, well, that's cool, because, you know, I was able to buy these for like 90 grand that rented for 900 bucks, a thousand bucks, so able to beat that 1% ratio. So I bought one in Birmingham. This is back in 2012, 2013. And it worked. So I 1031 Exchanged my Seattle rentals and bought eventually 11 rentals. So I had five in Atlanta, four in Birmingham, one in Pennsylvania, and one in Indianapolis, Indiana. I guess that check mark was 2015. I was kind of rolling with 11 rentals, $2,000 of passive cashflow a month, and thought I made it right. But then think, as you allude to, right? Most of us, once we become accredited investors, we realize that syndications and private placements are really the next step. And you know, this way you're able to diversify across different geographic areas. You're able to tap into value add, because when I was doing those turnkey rentals, it was quite frankly, my hope and pray it was just 20% down Fannie Mae and Freddie Mac loans, but there was no value add there.

Lane Kawaoka (00:05:01) - So I was just hoping and praying that market appreciation would go up. And then the cash flow was there. But man, like, if anybody's own, do you know what a pain it is even if you have property management? Well, had maybe an eviction or two a year on that and some kind of big catastrophe that happened. And every water on those properties, like a tree fall on the house or some kind of washout in the basement or tenant, they got those stupid candles, incense, candles, and they burned a part of the house. You know, things always happen with these people. And this is kind of where around 2015, 16, I started to make the transition as a passive investor into Syndications.

Tejas Gosai (00:05:40) - Before that time period, though, you did everything yourself with your own capital without anybody else involved.

Lane Kawaoka (00:05:47) - Yeah, because I was broke, right? I mean, I think what a lot of people don't realize is to get into these larger deals, you got to cosign on debt yourself.

Lane Kawaoka (00:05:54) - And if you're going to go take down a $20 million deal, you need the net worth and liquidity requirements. Namely, you need $20 million net worth to your name, or you need four dudes that have 5 million. Net worth each.

Tejas Gosai (00:06:08) - Thanks a day. I'm sorry I'm monopolizing this, but this is important because there's this. This is that moment. And I manage a private equity fund. I had to do a similar, like realization and then realize how expensive and difficult and, you know, all the mechanics of being able to legally put it together, you know, spending a lot of money, and then you wear a new hat, you are a syndicator, you are taking other people's money and making them money, which should say you are utilizing their money. You're not taking any money. You're giving them more money than they're giving you. So you had to turn from what you were to that. Can you talk about that difficulty and then how you became that person?

Lane Kawaoka (00:06:47) - Yeah, I mean, initially I, you know, kind of went to one of these like programs out there that kind of teaches you how to underwrite it and do it, kind of waste the money, in my opinion.

Lane Kawaoka (00:06:57) - But the hard part, people don't realize. It's like, you know, the brokers don't take you seriously. You're just a yo yo that is coming around. It's never done anything. And from the brokers side, they want to have somebody take the deal, that they want to give the deal to somebody who is close multiple hundred plus unit properties before, not some, you know, newbie who is still working as freaking day job for that matter and mean I kind of played around for a couple of years there, you know, underwrite hundreds of properties in that time. And I realized one thing I learned how to underwrite deals tend to kind of figure that out after doing something couple hundred times and go into the process. But then I realized, you know, I was in my late 20s at that time, and I was like, well, my job's not that bad, right? I was working for the government, just pretty cruise job. And I was like, well, I'll be definitely on my path to financial freedom by late 30s, 40s.

Lane Kawaoka (00:07:53) - And I was like, well, let me just be a passive investor because I know all the players now and I can underwrite the deals myself. I don't even talk to people. I just look at the panels and the rent rolls, and that was kind of the path I went on initially. And then, you know, I started to get into it. And then sometimes you work with bad people and you learn that there's distrust, especially in the beginning rungs. Right? When you work with people who are just getting started, namely under $1 billion of assets under ownership, now, you really can't tell who you're working with. A lot of these guys are still working there. IT jobs, engineering jobs, accounting jobs. I mean, they might be professionals in their own right, but there's a big difference between professional operators who do this full time and have a long track record versus people trying to get started. And I'm all for people getting started, but I guess maybe I'm calling myself. I gave people like this money initially, right? But no more.

Lane Kawaoka (00:08:45) - I'm not going to I'm not going to do that. I don't go to the the academy hairstylist to get my haircut done. You know, I'd rather just pay a little bit extra and get it done by a professional or in this case, pay a little bit more fair splits and maybe a few points or less acquisition fees. Certainly not 4 or 5 6% acquisition fees like you see on some of these deals out there. But like I said, I ran into some difficult situations where people were just dishonest, they stealing money. And that was kind of my motivation at the time, where maybe it was just a snap judgment, but I was like, screw this, I'm just going to do this myself and operate this myself.

Tejas Gosai (00:09:22) - Love it that you're saying that.

Ade (00:09:24) - Yeah. And it's must have not been an easy, you know, decision, you know, from a mindsets perspective. So how did you go about, you know, making that in that case that leap into, you know, operating these properties yourself and potentially building a team to find, you know, operate stabilizer and play the whole game and even raise the funds.

Ade (00:09:43) - How did you go about like structuring that?

Lane Kawaoka (00:09:45) - It's easy if you can pull together. Putting it together is the hard part, right? So in any deal you need like three things. You need somebody who has the ins on the brokers to get the deal. That's your acquisition side. The second part is who can bring the capital to the table, right. The passive investors or just bring the capital to yourself. The third part is a little bit of, you know, everybody kind of pitches in in terms of who's signing on the debt, right, who's done, who has a Fannie Mae Freddie Mac on their side. But really it's those first two which are the hardest getting the deal and then getting the capital. Now this is some something where I had a big leg up because we started my podcast back in 2016, when nobody was really doing podcasts back then, you know, I was kind of talking about my story, buying little silly turnkey rentals and all the fun stories. You know, we'd have videos on the YouTube channel of like, some idiot trashing my property for like 20 grand and like the like the horrible, like, walkthrough, you know? So we built up a community with that massive community.

Lane Kawaoka (00:10:51) - Well, not big. I mean, I don't like big communities. I like it when I know everybody. It's just how I am. But enough that we've raised over 200 million over the last five, six years, something like that. I mean, so they naturally moved over as I was. Existing the content to the accredited investor mindset. And now, you know, I'm kind of even trying to get out of real estate for somewhat. And that's what we talk about in the elevator. You know, everybody starts off on this bottom rung. You know, some people start in the basement. They're broke. They barely make a hundred grand. Right. Those people don't go invest in real estate, bro. You don't get enough money. You can't do it. Sorry. Maybe that's just me, but I look at it from a pragmatic point of view. If you're somebody who has a six figure job, half $1 million of investable equity, or $1 million of investable equity, the stuff we're talking about here is private equity.

Lane Kawaoka (00:11:46) - Syndications is probably your jam. But when you get to a level of 4 to $5 million net worth, which I define as endgame for an average family of four and expensive place like California, you want to take some chips off the table. You don't need to be making 15, 20, 25% a year. You could. But why? Why take the risk, right? We've seen what happens with interest rates and there are market cycles. And when you start to go above a certain network level where you can kind of pull risk back and maybe go into less correlated assets, which the wealthy do, you are able to employ different strategies, which we talk about, which are kind of boring in my opinion. It's not as fun as multifamily value add real estate, but it's just this paradigm that I've kind of built into the new book, where there's stages to this wealth building journey and sure, multifamily or whatever value add real estate, you're in self storage, whatever, right? I mean, these are prudent businesses which are great, but they all do go up and down with the market cycle and there is risk involved with it.

Lane Kawaoka (00:12:49) - I would argue a great risk adjusted return because you're investing in things, commodities that the lower middle class and the average American uses, and the demand is not going to be going away. But still, you know, like think this is the whole part of having a holistic point of view on your finances. But most people out there under $2 million net worth have barely ten, 20% of their net worth in alternative assets. And I think there's a problem, too, that you cannot get your past self pass 2 or $3 million net worth before you've got a lot of gray hairs, unless you have more than 50% of alternative investments, in my opinion.

Tejas Gosai (00:13:28) - What a beautiful way to explain that. Thank you very much. That was eloquent. Let's like fast forward now to this part of it. You have a very different investor base, much larger amounts of money coming in. And, you know, obviously your resume precedes yourself. So, so many transactions. And I'd say just for the past couple of years, how did you maintain with Covid and all of this going on and then bring us up to speed? Because it's just been a crazy few years.

Tejas Gosai (00:13:57) - How do you keep growing in this?

Lane Kawaoka (00:13:59) - Well, we're actually thinking about shrinking and downsizing a little bit, to be honest. I mean, shoot, like first Covid comes and it's like, man, what the heck is going to go on here? Right? I remember March, April, May of 2020 was like, these guys got to pay their friends like, what's going to go on here? Thankfully they did. The government kind of bailed everybody out and it was kind of smooth sailing. It was, you know, and nobody was moving and created obviously created this inflation bubble. And we kind of wrote that a little bit. And we bought some nice assets in 2020 2021. But there was definitely an inflection point where some of these deals we did floating debt on. And when you're dealing with floating rate debt and the fed increases rates by 5%, that meant yeah, you get hurt by that. And I would probably say that's definitely a lesson learned there. Even if you do rate caps right, where previously people would do floating debt with unprotected no recaps right before.

Lane Kawaoka (00:15:02) - Right? We thought we were being pretty conservative there, but I think that just kind of goes to show that there is market cycles as I mentioned before. And I tell investors today, look, I mean, I've got my own skin in the game and this is exactly why you need to bridge the gap. You know, maybe invest in, you know, have your investments range from 4 to 7 years. Today we're 2023. You know, you should still have maybe some 2020 vintage stuff or even some 2018, although you probably sold those and made a killing on that already. But like, you never know what's going to happen. And if you have this diversified pool of private placements and syndications maybe a couple dozen at least, right? Like I've got well over maybe like 80, 90 K ones or something like that. I even know I haven't even got it all at this point. It's still September, but that's what a professional investor does not just get one, 2 or 3 deals at 5100 grand each.

Lane Kawaoka (00:15:57) - That is not diversification, but sure, like and I write this into my new book, I get the end game right. We're kind of mentioning it like what is diversification? A couple dozen plus. Steals. You know you're going into one every quarter. That way you're able to kind of space them out through the normal time duration of a deal, which is five years. What do people do when they're first getting started and when you're first getting started? I look back to where I was investing with shysters and newbies. You don't know. You don't know who's who, right? I would probably argue that in my early days, like one out of five deals just failed because of the people who are running it.

Tejas Gosai (00:16:32) - Everyone's trying to squeeze something out.

Lane Kawaoka (00:16:34) - Yeah, mean they get it. Like people who are new, they need to play the fake it to you make it game. That's all these like groups teach is like taking social media photos and silly things like that. Nobody teaches how to operate the damn deals, which we kind of learn early on when we are doing these little 40 unit, 50 unit class C properties, which is also, you know, I guess maybe mentioned, like where are we going in the future? Yeah, we're looking to downsize.

Lane Kawaoka (00:16:59) - We're actually trying to get out of multifamily estate to some extent because it's very crowded space. Anybody who can go to some weekend seminar, apparently they think they can now thing up with their eight of their friends that they met over the weekend, and they'll buy a 200 unit apartment complex.

Tejas Gosai (00:17:14) - Yeah. In Oklahoma.

Lane Kawaoka (00:17:16) - Yeah. Shoot, Oklahoma isn't very good.

Tejas Gosai (00:17:19) - It's always some, like random Midwest. Thanks for sharing that. Keep going, I interrupted you. Yeah.

Lane Kawaoka (00:17:24) - So, like, we've been kind of asked the question like maybe 4 or 5 years ago. It's like, all right, when I'm going to invest my dollars, where am I going to put it? And like, well, who are the operators? Right? Who am I going to give my money to? I'm like, well, where are the guys who've been doing this since the 2008 recession? Or even, you know, and the truth is, they're not around. Where did they go? Like, it's like the dinosaurs, like where the dinosaurs go.

Lane Kawaoka (00:17:47) - And what I've kind of learned over the past several years is a lot of these guys, these good operators, they moved to different asset classes, namely they get out of multifamily class B and C, crappy rental properties, and they move to either development or other asset classes and they get out of the space.

Tejas Gosai (00:18:05) - Like what other asset classes like self-storage stuff.

Lane Kawaoka (00:18:08) - Not necessarily self-storage, but like, you know, like industrial, like even office. Bigger stuff. Right? Bigger numbers. I mean, they're able to, you know, now raise larger amounts of capital to get into larger and larger stuff. And even class eight, I mean, I think on one hand I was, you know, you were saying earlier like, this is like the genesis, right? Of course, for me. Right. Like at one time I was like, invest in these higher cap areas, tertiary markets. You can get like six seven caps and go to class B and C assets because you're the institutions aren't doing it right.

Lane Kawaoka (00:18:38) - So you can get better pricing. But now it's like, why the heck are the institutions doing class A? And they want to stay the hell away from this class C B products, right? Like there's a reason why they do that. Of course they don't want to get their hands dirty with that type of stuff and operation, but they also invest in secondary and primary markets for the lower cap rates. And the lower cap rates mean less returns, but it also means a lot more stability, let's say anomalies such as office space in San Francisco. Right.

Tejas Gosai (00:19:07) - Awesome. Thanks for sharing all that today. You got anything?

Ade (00:19:10) - Yeah, a big question I always like to ask investors like you is for that new person. Like, you know, let's rewind back several years for you when you were just starting. If you were to go back, how would you start in this space? Would you get into community and maybe start doing bigger deals early, or would you just have just gotten your feet wet with smaller deals first and then getting going bigger from that?

Lane Kawaoka (00:19:35) - Well, I mean, I don't think there's any way around it.

Lane Kawaoka (00:19:37) - If you're an operator, you have to start off with smaller deals. That's what we did. We kind of chipped away at like a 30 something unit, 50 unit comes to mind. You know, class C properties, a lot of hands on, real difficult tenants, right. Where a lot of those guys just like 80% economic occupancy or one out of five guys just are deadbeats and they don't pay so very labor intensive. And I guess for LPs, they don't care. Right. Because they're not doing the work. But that's the way you got to start, right? Like because in the beginning, you can barely raise half $1 million to save your life. And, you know, especially when you have earnest money on the line, you get it in a way you kind of are having to run and save your life to raise that half $1 million, to close that probably 35 unit. You know, I mean, there's no way to other than that to start. But that's where I'll say for most people, like take inventory of what you have.

Lane Kawaoka (00:20:31) - If you're already $1.5 million plus and you're making a good six figure, you know, $200,000 and above for your credit investor, it might be better for you just to go on the passive side, start from there and do the math for yourself, right? I mean, if you're able to make a little bit more alpha by being an LP and some of these more specific deals then roll that way, and if that's the case, then yeah, you need to find other purely passive accredited investors. Get away from these type slopes where you just have these young general partner wannabes, you know, you need to find the guys with the gray hair. And but this is the hard part. Most of those guys with the gray hair who already have $2 million net worth plus are busy people. They make multiple six figures. They have families, you know, at least speaking for most of us, I think in our group. Right. Like they're 47, 50 year old. Plus they're super busy. They got kids too.

Lane Kawaoka (00:21:25) - Right? And the kids are, you know, these aren't old guys by any means. So they're even more busier, right? The kids actually want to hang out with them. The kids aren't off to college or teenagers, right? Well, maybe some of them are teenagers.

Tejas Gosai (00:21:35) - Young sports. Yeah, I'm that demographic. I'm in my 40s. Dude.

Lane Kawaoka (00:21:39) - That's you. Is your name Greg and your engineer? We got, like, ten of those guys. That's the struggle, man. Like you're the sandwich generation. Probably got parents that are still alive that you got to take care of, too, right?

Tejas Gosai (00:21:50) - My parents are still working. I'm an immigrant. We're all immigrants on this podcast right now.

Lane Kawaoka (00:21:54) - That's a big narrative, too, right? Like in our group, we'll do, like, hot seats on each other. And we have this, like sample deck that people will use because they're lazy. Well, not they're not lazy, just time efficient. Right. But everybody keeps using that same damn thing in my grandparents.

Lane Kawaoka (00:22:09) - You know, they never had nothing, blah, blah, blah. They sent me to college. They thought college was the way to do it. But yeah, I mean, that's that's the tagline of the book, right? Like, we talk about syndications tax strategies using passive losses and then accredited investor banking for the first generation millionaire.

Tejas Gosai (00:22:28) - And the name of the book is The Journey to Simple Passive Cash Flow.

Lane Kawaoka (00:22:33) - Well, that's the old one. That one's a quick read, though. But the Wealth Elevator is the big, fat 200 page book that's launching here in a bit.

Tejas Gosai (00:22:42) - Real quick, while we're here, how does somebody see your stuff? Get a hold of you. You have a direct website.

Lane Kawaoka (00:22:47) - They can go to the wealth elevator or, you know, shoot us the email team at the wealth elevator.

Tejas Gosai (00:22:54) - Oh, and everything's in the show notes too. And obviously we're tagging Layne Abbey. My podcast producer is going to get upset. We're coming in time. So got to ask some some fun questions real quick a day you can help.

Tejas Gosai (00:23:05) - How do you stay motivated and what time do you wake up and. Do you go to the gym in the morning?

Lane Kawaoka (00:23:09) - I'm not a morning person, so I'll usually wake up at like eight when my my daughter does. But all you guys are like a way ahead of me. I'm in Hawaii, right? I'm always behind on time, so I usually have to wake up quite frequently an hour or two earlier. I think the reason that question, like my whole point is like, dude, whenever you guys hit your stride, do what you want to do. Like you don't got to always be like in hustle mode. Like all these, these YouTube shorts are like, wake up at 5 a.m., journal, make your bed, you know, like, no, just do what makes like as long as you get like the important things done and you're good at project management, that's really that's all important. But I do think like working out thing I do typically go to CrossFit after I do the morning firefighter emails and stuff like that, because if I wait till like after three, I'm just like, I'm not going to do that.

Lane Kawaoka (00:23:59) - I'm just getting lazy after. Well, you have only have so much willpower that you have, so you might as well use it on something like that early on. And I think I read somewhere where like it's good to kind of tire your body out so that you're kind of your mind is, is kind of more focused to do focused work throughout the day like that.

Tejas Gosai (00:24:15) - Thank you, thank you. Day. You got anything? Last call.

Ade (00:24:17) - Do you believe in like, work life balance? Like, how do you have time for family? Well, you know, having to deal with and manage all these spawns and investors and.

Tejas Gosai (00:24:25) - Thousands of units, all these investors.

Lane Kawaoka (00:24:28) - We have a team now to kind of do a lot of the operations. You know, after we went over $1 billion of assets, we hired a lot of people that, you know, were in the industry. But yeah, I mean, it's still busy doing a lot of stuff, you know, talking to investors all the time.

Lane Kawaoka (00:24:41) - That's the thing I actually enjoy. So it is somewhat of an enjoyable thing I like to do. Although I can't talk to more than three investors a day, just it just gets a little bit too much. Right. And I think that's where if you can figure out what you enjoy doing it and with the right dosage, you know, I think everybody should figure out what they want to do for the rest of your life or ask the question, don't ask the question. If money didn't matter, what would you do? It's like, no, if you had to freaking work all the time for the rest of your life for four hours a day, what would you do? That's probably a better way of framing it. But yeah, I don't really believe in work life balance. I mean, in seasons of your life, it changes. Right now we're growing the business, we're moving. And I think one thing that helps me, I mean, I'm in a lot of other organizations like Entrepreneurs Organization and and stitch, which is another business mastermind.

Lane Kawaoka (00:25:32) - You know, we constantly kind of reflect on the big, you know, staples and call this kind of the four-legged stool where I got this from a dude that when I was used to work for Fortune 500 company and one of the VP's would come and give this speech, they stole this from him. But you know, you have the four pieces of your life, which is your professional, which is what, and money, and then your family relationships and then your spiritual side, and then your health. And I have these kinds of like organizations that I go to, and we kind of reflect with each other and private. And at the very least, it's like, well, give us a score in your health, your business, your relationships, and it kind of helps reflect back and at least like compare yourself with other people. And maybe there's a little bit of accountability there. It's like, dude, you've been saying your relationship is like a 4 or 6 every month for the last seven months.

Lane Kawaoka (00:26:22) - Do something about it.

Tejas Gosai (00:26:23) - That's awesome. Gotta measure things the right way. Lane. Awesome day. Thank you. This is great. And Lane I'm going to throw this out there put you on the spot. I'd love to have you back as you keep kicking butt and as things change. Thank you so much for being here. Thank you so much.

Lane Kawaoka (00:26:37) - Thanks for having me guys.

Tejas Gosai (00:26:39) - For sure. That's Lane Kawaoka. Ade, me, iTunes, Spotify, Stitcher, Google Play. Cheers. Thank you.

[END OF INTERVIEW]