

Episode 1621

[INTRODUCTION]

Caleb Johnson (CJ): What really turned me on to real estate was that I learned that 90% of millionaires had gotten their millions through real estate. And when I learned that, I thought that was crazy, that 90% of the wealthy had gotten their wealth through this one avenue. And those were pretty good odds. So if I wanted to be in that group, I should really consider this real estate thing. And that's really what turned me on to it.

Sam Rust (SR): This is your daily Real Estate Syndication Show. I'm your host Sam Rust. Joining us today is Caleb Johnson, founder of Red Sea Capital. Caleb is a full-time investor and business owner has nearly 100 units under management himself in the greater American Southwest. He's also the host of The Trial to Triumph Podcast, and focuses on interviewing notable guests who are leaders in their own fields, including real estate. His mission is to be a faith-based professional, committed to investors and building relationships.

[INTERVIEW]

SR: Caleb, welcome to the show. Thanks for joining us today.

CJ: Sam. Thanks for having me. I'm excited to be here.

SR: Definitely. So you're in Phoenix, Arizona, grown up there, you're 18 years old, you somehow you get an entrepreneurial itch. Let's start at the very beginning, what kind of got you sparked what sparked interest in real estate? What brought you to where you are today?

CJ: Yeah, that was about seven years ago. And the really, the thing that drove me to become an entrepreneur and open my own business was to see what my parents had, and not wanting that. My dad has worked for the government for almost 30 years. And he, you know, enjoys what he does. But my mom's also an occupational therapist. And so, you know, actually around when I was like, 19, 18 years old, my mom had a procedure, a surgery, and which caused her to be out of work for some time. And she lived off of her savings for a certain amount of time. But after three months of doing that, she could not afford to continue to live off of her savings, because she was about six years old then. So she was forced to go back to work.

CJ: And you know, being an occupational therapist, she was on her legs, on her feet for six hours a day. And she had both of her knees replaced. And so I would see her come home saying that just tears from so much pain and having to stand for that long, and when her body had not healed completely. And so that really motivated me that I did not want that for my future self. I also did not want to project that on to my future kids, you know, seeing their dad have to go to work when he doesn't want to, but he has to, and the jobs kind of holding him there like a ball and chain. So that's what really motivated me and inspired me to dip my toes into owning my own business.

SR: So you wanted to own your own business, you seen firsthand how working for another entity, government or other employer just, it has its pluses, and also significant attractions was that first business and what led you to real estate?

CJ: Yeah, the first business was actually Multi-level Marketing. And so I worked with a company where, you know, you have your own business and you buy your own products. And then you try to, you offer that to other people so they can have their own business and you have a downline. And so a lot of people will feel like that's a pyramid scheme. And some companies definitely are. And I won't go too much into that. But I left that probably after a year. And you know, what really turned me on to real estate was that I learned that 90% of millionaires had gotten their millions through real estate. And when I learned that, I thought that was crazy that 90% of the wealthy had gotten their wealth through this one avenue. And those were pretty good odds. So if I wanted to be in that, in that group, I should really consider this real estate thing. And, and that's really what turned me on to it.

SR: Yeah, it's interesting that your first venture was MLM. And we don't have to go into all the positive and negative aspects of that industry as a whole. But I'm curious what kind of skills you developed in that year that later served you? Well, as you went into real estate, I'm sure there had to be some crossover.

CJ: Yeah, I'm really glad you brought that up. When I was so 18 years old, you can imagine an 18-year-old and the point of the business is to network with others. And so it was such an amazing opportunity for me to develop speaking skills and really be open to talk to anybody, you know, I've really feel like now I can go into the gym, I can go into anybody and really strike up a conversation and not be nervous about it. Because I would go to malls and I would go to these places where there was a lot of people with just the goal of starting conversations and trying to get contact information, you know, just don't want to come off weird, but at the same time wanting to build a solid relationship and show them that I have an opportunity and value to provide them. So that really got me out of my comfort zone which is also, another great thing that I

learned is that it's so important to do what makes you uncomfortable. Because usually on the other side of that, there's going to be a great reward. So those were a couple of things that I really learned from there. And then on top of that networking with very successful people, and other just go-getters, and opening my eyes to see that there was more than a job waiting for my future.

SR: And I would imagine somewhere in there overcoming rejection and fear of failure, because I'm certainly you faced a fair amount of both of those.

CJ: Absolutely, absolutely. Yeah. 18 years old, and being scared on my mind, and not having a whole lot of success, some success, but not what I wanted. So, yeah, great tool for that as well.

SR: Yeah. Oh, that's fantastic. So then you read that famous dad, I mean, I read that same stat, that was one of the things that pushed me into real estate. You know, success leaves clues, but rather than reinvent the wheel and try to come up with the next Facebook, just follow a recipe that's worked, you know, in a really broad sense for a lot of people down through history. How did you start learning about real estate? What was that process? You know, at that time, you're in your late teens, maybe 20ish, everybody talks about finding your niche in real estate? How did you go about starting to intake information and figure out what your niche was.

CJ: So the first resource that I use was YouTube. And I think there were like HGTV and Flip or Flop and things like that, and kind of absorbing all this information. And then I found Bigger Pockets, which is really a free resource is kind of like Facebook for real estate investors. And so again, on the networking side, that was great to, to see people that had what I wanted, and were doing what I wanted to do, and that that was possible. And so listen to their podcast, and I heard this term thrown around a lot that was called house hacking. And I thought that was fascinating where I could live in one property, let's say it's a single-family home even or a duplex or a fourplex. And I could get into that deal with very low money down, let's say three and a half percent or 10-\$15,000 at that time in my market. And get into a property that was already cash flowing, the residents were paying for the mortgage, they were paying that down, they were paying for the repairs.

CJ: And it was a really great way for me at 19 years old to get my feet wet, get my hands dirty, literally thing get kind of kicked around behind drug dealers and hoarders and so much fun things, not literally, but really just great learning. And it also opened my eyes to see, well, I invested 10, \$12,000. And I'm making 1500 a month, and I'm already getting a return. And that's crazy. You know, my mind starts working. How do I replicate

this? How do I do more deals? How do I expand this? And so it was a really great resource, bigger pockets to learn. And then they gave me some great actionable steps as well.

SR: Yeah. So what was your first property then? Did you buy like a triplex or a fourplex?

CJ: Yep, it was a fourplex. And I'm in Phoenix. So it's probably about 40 minutes outside of the main Metro, probably in a C neighborhood. You know, like I said, there were hoarders and drug dealers that were my neighbors. And it was funny, the first day, my mom was helping me move in. And we saw this guy running down this alley, and we thought a dog was chasing him. But this cop turns a corner and the cops chasing him, my mom's screaming and freaking out. And it's you know, it's just so funny. It's such a blessing to look back at that moment. And think, oh, well, here I am. I mean, it's cash flow. And you know, those markets are really known for cash flow. But you do get what you pay for. But money's green. And it's all it's all green so.

SR: Yeah, I'm curious, did you self-manage the other three units?

CJ: I did? I did. I really wanted to do that to get my hands dirty and really understand the business. And so I did that for my entire residential investing career. Okay.

SR: And would you advise somebody in your shoes to do that? I think part of the answer to that is going to depend on what the goals are. But for somebody who's entrepreneurial minded, maybe wants to explore real estate, would you counsel them to self-manage a house hack?

CJ: I definitely do. And especially people that are that were like me single. And you know, I talked to people today and they say, you know, they have four kids when they started investing. And that's just not feasible to live in a duplex with four kids, your wife. And so if you're single, were like me, absolutely, I think it's a great tool you can use to really get your feet wet. And again, kind of understand the business and just how that works.

SR: Now, thinking back to that time, what was something that you learned through the management that maybe you look back now and you kind of chuckle that you didn't know that but at the time was like the super big revelation that of information, or something that pops?

CJ: Yeah, yeah. My first renovation was a two bed, one bath. And the person that left this unit, they were a hoarder. And in this two bed, one bath, there were seven people living in it.

SR: Oh my gosh.

CJ: And one bedroom was had 18 fish tanks, and they were actually selling fish to help pay for rent. And so and roaches and mice, and there were kids living here, you know, five, seven years old, and it was just sad. And so, got them out of that unit and renovated it myself. And there's so many fun stories behind that, but and that took me two months, it probably cost me let's say \$7,000. And then when it was the next units turn to renovate, I paid someone to do it. Because renovating a two bed one bath, you know, usually takes a couple weeks, right, for someone that's experienced and handy work. And I was not, you know, I have more blood, sweat and tears in that property in that one unit than any other property I've invested in since.

CJ: But I hired someone to renovate the next unit. And it took them the same amount of money. And two weeks, and I said I'm done. You know, I know I'm not a handy person, again, I'll have more blood than I will actually have work done. And so I can still do some things. But it just makes so much more sense because you're also paying for vacancy, right, while that unit is not filled. And if you're paying the same amount of money, it just you know, is a no-brainer. And then you can do other activities that will generate you more income as well.

SR: So you start down the residential path house hacking, which is a phenomenal way to start, I highly recommend. I tell all my siblings, hey, when the time comes, look to buy something, even if it's just a home with a floor plan that's conducive to renters, or a walkout basement or something like that makes a huge difference to get ahead. But then you started heading towards multifamily, what triggered you to go in that direction.=?

CJ: You know, I have mentioned networking a lot. And that was a big thing for me as I went to a real estate meetup that was focused on apartment investing. And my goal initially was to invest in residential. And then I would scale into apartments. And I thought I would have some more experience, you know, with investing in residential for five years, and then that would be a good foundation. And then I could scale, but I went to this multifamily meetup. And Cory Peterson was actually speaking, who's lives about 20 minutes away from me now, who at the time owned about 150 million and assets under management. And he shared two things with me that really changed my perspective. And the first being was that you're going to be green, regardless of when

you start, right commercial and residential are just two completely different animals. And you just even if you had 20 years of residential experience, you would learn a lot from that. But you can't push that same knowledge, all of it at least or the majority of it into commercial. And it's it's just night and day, even how you value properties and all that. So that was the first thing.

CJ: The second thing was his story about his first offering, which I won't go into the too many of the details. I mean, I can if you want but his first deal, he said he bought it with a couple of partners, and then they sold it within two years. And he alone made \$2M on the disposition and try and you know, thinking about residential real estate, you cannot do that in two years. I mean, unless you get a homerun deal, maybe in a very high appreciation market, but \$2M in two years on one property, you just can't do that in residential unless you have, you know, 100 units and and then how long does that take to get? So it really just showed me man if I want wealth than commercials, where I need to be. And yeah, cash flow and financial freedom is more possible through residential, and that's a great tool for that. But if you want to get wealth, then commercial is really where you need to go. And that opened my eyes to that. So it was really powerful.

SR: Now, multifamily real estate, just the scale is much bigger, and the levers are longer. So you can get those outsized returns. Now that's, I would still say like historically, that's not the norm to see that kind of return, obviously \$2M, kind of depends on how much base and how big the basis was in the deal, all that sort of things, but that's still, as you mentioned, really hard to do in the single family world. So you have that conversation with Cory, meet him, see somebody who has been successful. What is the journey look like from there as far as researching learning about how to take your skill set and apply it in multifamily?

CJ: So I thought I would start with capital raising, because that is what Cory first did was capital raise. And I thought I had known all these investors for three years. And again, I was a big networker. So I had this large network, and I thought I could just raise capital at a snap of a finger. And I found out that was not the case. So it took me longer than I thought to raise capital, you know, I was able to partner with a couple of guys and kind of get my toes wet in the commercial space. But to really get my first deal done, I had to source an off-market property. And a story about how I first you know, my first capital raise was, I had found this 16-unit property that was off-market, and I needed about 300 grand to get it done.

CJ: And long story short, I contacted everybody in my network, and not one person wanted to invest. And I thought that I don't know what I'm going to do, you know, I have this property under contract, how am I going to get this done. And praise God, a friend

of mine, and a partner of mine, he recommended to me a couple of people. One gentleman actually, that he had worked with before that kind of it just seemed like a good fit, he brought a partner, and he brought some capital as well. And then I did find someone in my network that did want to get in on the deal. But it's just interesting. A lot of people, you know, whenever you're doing your first capital raise, they either want to see you have some success, they want you to go full cycle on one deal before they consider investing with you, or they just want to see your career. You know, there's so many people that get into this space, because it is so lucrative that when they fail, and it does take time, it is challenging to get into when they don't get the success that they want, they bail.

CJ: And so how do they know that you or I are that person. So they want to see you have some more time invested, and your real estate career. And so and other people, you know, they have, you know, circumstances come up where, unfortunately, they're going through a divorce or someone passes away in their family, and they just can't take that on at the moment. And for me, I just found that right when I needed it, people weren't available. So that was my first capital raise. But from there, the way I really launched my commercial career was sourcing off-market properties. And bringing those off market properties to an operator that had experience had the track record, and was able to get the deals done. And that's how I got started.

SR: Fantastic. And do you still hold that 16 unit today?

CJ: I do ya do is performing? Well.

SR: I'm curious, a lot of the assets that you've done personally are kind of in that middle zone or on the smaller end, you know that more than a four Plex, but less than 100 units? How have you found effective property management partners for that size of property, because that can be one of the bigger challenges, I assume you don't self manage those at this point.

CJ: I do not self manage those. That's right. And that is a challenging thing. And I've actually changed my philosophy on acquiring properties like that. Each deal is very specific, which is something I love about real estate. And but at the same time, those smaller deals, it's so hard, let's say with 16 units, if you have one vacancy, you're at 93% occupancy, and so you have two of those or three of those, and depending again, how you're structured, you could be underwater, and the management fees for those size properties are usually higher, too. And so many property managers, they tack on little fees, you know, a 25% increase for a collection fee and this fee and that fee, and maybe even if you have the residents pay late fees, I've had experience with property

managers that they take that, right, because it costs them money to recoup those late fees. And so you actually don't see as the owner, any of those late fees.

CJ: But it's different with a larger apartment complex because you know, it's run as a business. And so it is a lot more challenging whenever you are getting into those smaller properties. And yes, every market is probably different. And maybe you have a golden property manager that you know, or something where that's not the case for you. But for me, in my experience, that has been the case. And so I have changed that philosophy to pursue larger offerings. And, you know, again, it's kind of deals specific whenever you look at the challenges of property management for the assets that we own. The largest being is 30 units, and then the smalls is 16. And depending on the market, depending on what my partner's own in that market also affects it. So that's kind of what it boils down to.

SR: So what does the future hold for you, Caleb? You started this podcast which how to triumph, you're seeking to expand in the multifamily space? What are the three or five-year goals? If you have any of those?

CJ: Yeah, absolutely. And I think for me, it's, well I can talk about right now, you know, three to five years is where we want to think. And right. That's the goal. That's what we can see. That's what we want to get to. And within six months, oftentimes, I've experienced the goal changes. So what we're doing right now is, you know, we've seen about a 50%, decrease in transaction volume in apartments, and even in residential, you know, across multiple industries, that's what we're seeing. And that is my primary focus. And so since we've seen that decline, I do want to, I am starting to diversify into short-term rentals and other asset classes that is going to get me my ultimate goal. And I think so many times, and I've been there where I want to stay in my box, let's say, which is apartments. And my goal is to be financially free.

CJ: And so it is important to focus on your goal. And you know, let's say you want to tackle apartments, but just the market shifted, and things have happened, where it's just not happening. And that's for a lot of people. And so what do you do, when that happens when you want to get to your goal, you want to become financially free. But you know, you just been dealt a tough market or a tough financial market, or whatever it is, you have to get creative and get out of your box. And remember to focus on your ultimate goal and do what is going to get you that ultimate goal and not just the box. So get out of the box.

CJ: And so I've had to do that, where I'm still pursuing apartments. And what we're doing now since we have seen a large slowdown is pursuing emerging markets, and

really doing a lot of depth of research on job growth, population growth, projected job growth, David Lindahl, wrote an amazing book called Emerging Real Estate Markets. And he goes into the weeds on how to do that. And so we want to start building those relationships with brokers and sellers that are in those markets that are up and coming that no one knows about right now. And even the people that are local investors there, they think you're crazy if you buy something there, but there are things that you don't see that are making that a great market.

CJ: And so we want to start investing into those markets into the relationships there, and three to five years, I don't even know saying that so hard, you know, I'd love to be able to travel more, and really rely on the podcast more and do deals here and there and more mission work. And so I think it really boils down to me, it's just time. You know, that's, I know, for me a big factor into why I'm even doing what I'm doing is to have the time flexibility. And you do need finances for that. And that's I think where the future holds for us.

SR: Now, I appreciate you speaking to that, what's a habit that you're currently trying to cultivate that you believe will lead to success or successful outcomes down the road?

CJ: A habit for me and I'm everyday striving to get there is to time block. And also in the sense, I work from home. And so many times, let's say I am just going to work on my real estate business. And I have my to do list. But other things come up, you know, I gotta do laundry, I'm going to walk the dog, she's whining, so I got to take care of that. Maybe I'll do the dishes. And so you feel like you're doing this busy work. And I've been there so many times. But you don't really get anything done. I mean, your inbox, you know, your emails are clear, but you haven't really progressed your business. And so what I've started to do that's really counteracted, that is to time block. And let's say if I need to make if I need to call brokers today that I'm going to set an hour aside, and I'm not going to get up from my seat, you know, if I got to go to the restroom, then okay, so be it. But for most of the time, 95% of the time, I'm going to time block that one hour and I am not going to move I am not going to do other things I'm going to turn my phone on Do Not Disturb and really just do that deep work for an hour.

CJ: And let's say my goal is to do that three hours a day. Okay, so I need to do that three times a day. And or I need to do 90 minutes twice a day or whatever that is. And so I'm at the point where I'm in my business, my goal is six hours a day to really progress my business and where I'm not doing emails, I'm not doing other little things that's gonna distract me and make me feel like I'm doing busy work. But that's exactly what it is. It's just busy work and it's not progressing my business. So that's one habit that I've really been trying to cultivate and expand.

SR: Awesome. Well, Caleb, as we get close to wrapping up here, what's something if somebody's listening to this show, they want to get started in real estate? Maybe they're on the younger side? Is there a particular resource, a podcast book, anything that you would recommend and, and point folks to or to if they want to start an investing journey?

CJ: Yeah, I would definitely say, well, this podcast is amazing. I love what you guys do the daily episodes. It's so amazing. And those free resources are great, Bigger Pockets they have it seems like 50 different podcasts now. So they have some great shows your show is great. I do have a podcast called from Trial to Triumph. And this one the inspiration side and we kind of get into more of the weeds. It's not really real estate focused, but I'd say those resources are really good for anyone that just wants to get started.

SR: Fantastic. Well, Caleb, thank you for joining us today. Thank you to our listeners for joining us on another episode of The Real Estate syndication Show. I'm your host Sam rust signing off.

[END OF INTERVIEW]

[OUTRO]

Whitney Sewell (WS): Thank you for being with us again today. I hope that you have learned a lot from the show. Don't forget to like and subscribe. I hope you're telling your friends about the Real Estate Syndication Show and how they can also build wealth in real estate. You can also go to LifeBridgeCapital.com and start investing today.

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