Whitney Elkins-Hutten of PassiveInvesting.com interviews Caleb Johnson of Red Sea Capital Group to dive deep into a 14-unit studio in Van Buren, a redevelopment in the heart of Phoenix, Arizona and unpack the real-world challenges behind acquiring a bank-owned, 1940s-era property—from navigating hard money lending and skyrocketing rehab costs to pivoting business plans when co-living no longer penciled. Caleb shares candid insights on due diligence for vacant assets, negotiating purchase price, raising capital in a cautious market, and why experience and the right team matter more than chasing big returns. If you want a transparent, deal-level breakdown of how seasoned investors create value in today's multifamily market—this episode delivers lessons you won't want to miss.

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14-Unit Studios On Van Buren in Phoenix, AZ With

Caleb Johnson, Apartment Syndication Expert

I'm excited to be joined by [Caleb Johnson]. Caleb, welcome to the show.

Thank you so much for having me. I'm excited to be here.

Before we dive into your deal, Studios on Van Buren, fourteen units, in Phoenix, Arizona, tell us a little bit about who Caleb is, how you got into the multifamily space, and where you're at.

Caleb's Background & Multifamily Track Record

My background is that I have been in restaurant management for five years. I invested in residential, fourplexes, duplexes, flips, and house hacking those for three years, and then transitioned into multifamily. For the last couple of years, that's been our focus, commercial and multifamily. We've acquired 8 assets, and only 1 of those is being retailed.

The rest have been multifamily, ranging in size from 230 to 3 units, as small as this one that we're talking about. Now that I think about it, it's our smallest one we've acquired, but it's very unique in everything. We're going to talk about that. I'm the Founder of Red Sea Capital Group. I have a podcast, and I'm writing a book. We're vertically integrated as well with property management here in Phoenix.

Deal Overview: Studios On Van Buren (Acquisition & Pricing)

Let's dive into the property. Studios on Van Buren, fourteen units, in Phoenix, Arizona. Phoenix is a large area. Let's narrow this down to the MSA.

This is the actual Phoenix proper.

When did you close on this property, and what was the purchase price?

We closed on October 3rd, 2025. The purchase price was $780,000.

Let me do some quick math.

It's $55,000 a unit.

How did you find this property?

I had not looked at Phoenix for a long time, but we made a pivot to wanting to solely focus on Phoenix. I had a long list of brokers that I used to contact years ago. The first one I called, his name was Aaron. He had since moved from multifamily into industrial brokerage. I asked him if he knew any multifamily brokers in his office, and he connected me to Tommy. Tommy was the one who had this opportunity.

Was it on market or off market?

I believe it was on the market.

How did you get to the purchase price? How did you negotiate this property?

Originally, we had the property under contract for $923,000. That was with a scope of work around $255,000, including many things that we felt were very conservative, even with contingency. After further due diligence with the panel, wiring, HVAC, gas line, and everything that was wrong with this property, and it was vacant, so you could imagine there were a lot of challenges with it, that scope went from $255,000 to $460,000. That had changed our numbers.

We retraded at $915,000, if I remember that number right. They came back at $875,000. We wanted to get aligned with our numbers because our original plan with this project was to go co-living. What co-living is is week-by-week leases. That's the structure of it. Commercial lenders don't like that. The co-living model works very well in residential, but in commercial, not so much.

Tweet: The co-living model works very well in residential, but in commercial, not so much.

We reconnected with our lenders because we wanted to make sure our loan-to-value and interest rates were aligned, especially at the refinance, because we're getting hard money to lock down this deal. They said, "When it comes to loan-to-value, let's be more conservative and bring it from 75 to 65 to be conservative." They had that counteroffer of 870-ish or 880-ish. We were at $815,000. We have to be at $780,000 to make this deal work. It was a unique situation where we retraded, they countered, and then we went below our original retrade, but they accepted it. They were very motivated as a bank-owned asset. That's how we came down to that 780 price.

That is a great insight there. This is a bank-owned asset. A couple back and forths. It was under a $1 million purchase price, $780,000. You've already mentioned that all the units are vacant. What is the vintage of this unit?

1940s.

Due Diligence & Construction Challenges (Why Experience Matters)

That's interesting. Probably all sorts of surprises. Let's get it. You walked in with an original construction, back-of-the-napkin math of around 200 to 215, it sounds like. It quickly doubles. What did you find on an inspection?

The wires were aluminum wiring. We knew that going into it. There were questions about the panel needing to be redone, as it's a 200-amp panel. That's typically what's used for a residential home, and this is a fourteen-unit apartment complex. Out of the gate, we thought we would need to go up in amps. A panel is only $4,000. This is the main panel. It's not that big of an expense. We found we needed to rewire, as there were no ground wires. We decided to go with many splits for all fourteen units compared to window units. No central AC here and no furnaces, just window mini splits.

Water heaters needed to be redone, as well as the gas line and pipes. This was interesting. It used to be an old motel. For the plumbing, the main line goes underneath the parking lot. You have the parking lot, the main lines underneath there, and then you go up the sidewalk, and then the units are on the right. You have these small drains coming from the shower, toilet, and all of the faucets into the main line.

We found that there were holes in the main line. We decided to put that underneath all the units, which makes more sense. We're installing a laundry room on top of all that. There were many things with this property. It's a C-minus location, so it's a completely different tenant demographic as well. Those were some of the due diligence things that arose.

Did you have to dig up the parking lot to get to the main line?

No. That's something where we can abandon that. It does need a little bit more work to go from the new pipe that we're installing to the street. All the other properties flow from their property to the street. We're going to have to tie that into the city, which has its own challenges, but that's what we have to do with that.

This is well into the unit count that you own. What transaction number is this?

Meaning, the number of deals we've transacted?

Yes.

This is number eight.

If this were your 1st or 2nd transaction, would this situation be different?

Absolutely. We would not pursue something like this. Even going into that, it's a smaller deal. One of our partners has developed the ground-up development of $20 million, $30 million, and $40 million assets, and has 30 of those. We brought him out as a construction consultant for his expertise. In my first deal, for full transparency, we acquired the asset and then found a plumbing issue that, after we bought it, resulted in $43,000. To avoid any risks, we wanted to make sure our team was stacked with those individuals who have much more experience than we do, even if that means we make less money. We brought him on, but this would not be my first, second, or even third asset.

Tweet: To avoid any risks, we wanted to make sure our team was stacked with those individuals that have much more experience than we do—even if that means we make less money.

I want to make sure that we've called this out here. I'll coach investors one-on-one sometimes, and they want to jump into the big money first. They were like, "Why close a multifamily property that is a 5-unit or a 6-unit that is stabilized?" I'm like, "It's because we need to get our feet wet and cut our teeth." All of a sudden, they do the due diligence, and they're like, "Let's go value add because we make more money." I'm like, "It means you have to have more expertise on your team." I love that call-out there.

We've got the physical due diligence. Our construction budget is inflating here. You're already in the due diligence period. With the lending, which we'll get into in a second, we're struggling a little bit with the lending because we're taking it from a vacant unit into a co-living model. Before we do that, were there any other due diligence issues? What kind of financial due diligence are you doing on a vacant property?

There's not much financial due diligence, except for a survey policy that needs to be taken place and a loss run report. We don't need to look at bank statements to confirm they're collecting funds, truly. There's no T12 a unit makes, not even a rent roll. There was minimal financial due diligence that needed to be done for this asset. It came down to physical and making sure our underwriting was conservative.

Van Buren Unit Studios: There's minimal financial due diligence needed to be done for this asset. It really came down to physical and making sure our underwriting was absolutely conservative.

Let's go into the lending piece of this, but before we do that, you flagged the panel. We know there are issues with the main water line. Were there any other things that prevented you from getting insurance on this property, or was that pretty smooth sailing?

We went hard money. The hard money lender wanted replacement costs coverage. Compared to our first insurance quote, it did not cover that. That only increased maybe a couple of thousand dollars. What was unique about this property is that, typically, when we underwrite an acquisition, insurance is going to be X amount per unit. $400 or $500 per unit is pretty standard. In this property, they're all small studios, like 280 square feet on average. All fourteen units, the entire building, are 3900 square feet.

When it comes to getting insurance, that number, let's say $500 per unit, is average for an asset like this in Phoenix, Arizona. The units are so small that the number goes lower. This property turned into a $400 per unit. We made up for the thing against us when it comes to vintage and the vacancy with the property being small, at least when it came to an underwriting perspective and calculating insurance.

Financing, Capital Raise & Exit Strategy

Let's move on to the financial piece of the property. What kind of lending did you get on the property,

and what were the terms? I feel like there's a story here.

We received hard money financing. We shot many hard money lenders. We saw rates from around eleven. Hard money lenders typically like residential flips. That's most hard money lenders' bread and butter. When it comes to commercial, you're going to have a few more points. That's what we saw across the board. We went with a lender with whom I had a very good relationship. We connected in faith. We're both believers. He's local, and there are no origination points. It's a $1,000 flat rate fee because he's on payroll. Any origination with the $1,000 is a bonus for him. 12.7% for the interest rates, 12-month term.

What are you targeting for the carry out? That seems to be where the challenge is going to be.

Carry out, meaning the refinance?

Yes.

70% loan-to-value and 6.5% on the refinance rate. We should be well below that in this market. Praise God. The ARV at the refinance, we're projecting it to be 120 a unit, which is around $1.68 million. Properties are selling in this exact sub-market for 135 per unit. We think we're very healthy in that projection. On top of that, everything's new. The lenders would like to see that. At the end of the day, it's more NOI-based. We plan on furnishing the interiors. That's going to drive NOI, as well as the coin laundry, and also billing back to residents for the internet.

One thing that's been unique with this is that we wanted the numbers to work based on market rents. We've been going on [Apartments.com]() and seeing where market rents are at. We've done more investigation since closing. Section 8 is giving us $1,300 for studios of this size in this exact ZIP code. Other subsidy programs are around that price as well.

The plan is we're going to move towards Section 8. Not all 100% of the units will be Section 8, but different subsidies and then even some market rents. That should drive the NOI even more. We believed our terms at the refinance were very conservative, but there will be additional NOI coming in the door once we start leasing up. Lord willing, it should be favorable.

I want to pause here. You mentioned that you're taking an old hotel and converting it into a co-living model, where they pay weekly. Does Section 8 or a subsidy-type model allow for that? I was wrapping my head around that. I've had HUD housing before and HUD tenants. They all had to have a 1-year or 2-year lease. Help us understand how you're working this with those tenants.

I'm glad you brought that up. Originally, when we were pursuing this asset, we had planned on going co-living. After uncovering the challenges and talking to many lenders, we realized that with a commercial asset, the lenders that will write alone on that are very few and far between. You're going to pay for that with terms. We were planning to do co-living. We decided not to go ahead with that route and do long-term leases.

You identified the highest and best use of the property after closing and were able to pivot your business plan. That's awesome.

It wasn't after closing because we were having these lender conversations before we got to closing. I got to the bit where I wanted to close something and then realized, "This number is not going to work." We made sure all of our ducks were lined up before we were under PSA. Before that PSA marker, that's when we realized we were going to go market rate rents, likely, in 6 to 12-month leases.

Van Buren Unit Studios: I don't want to close something and then realize, 'Oh gosh, this number is not going to work.' So we made sure all of our ducks were lined up before we were under the PSA.

Did you raise capital for this deal?

We did.

Tell us about the raise and how you structured that for your partners, both the active GP partners as well as the limited partners.

We structured that with a 65/35 split. We have two investment classes. One was a $50,000 minimum with a 20% targeted AAR. That's a 2X equity multiple over five years. The Class B investor was a $10,000 minimum, projecting 13% annual return. There was no pref. It was a straight split.

How much did you raise for this deal?

About $450,000.

Relatively, all things considered, it was a smaller raise. Did you have any issues? I know some investors

are shying away from the Phoenix market in November 2025. Did you have any issues there with these investors?

No. We closed the raise in about three weeks. Even with the vintage and everything against the property, we're very conservative in our underwriting because we understand the risks that something like this brings. We were fully subscribed in about three weeks. When I say fully subscribed, some people signed their docs. The money was going through IRA custodians, and we didn't receive all of that after three weeks. When it comes to commitments, we were fully subscribed in three weeks.

What kind of fees did you charge for this deal?

Investor Alignment & Conservative Fee Structure

Two percent acquisition fee. No capitalization fee. No asset management fee.

What is your exit plan and exit timeline for this deal?

We were originally projecting a 3 to 5-year hold. However, we are managing the property ourselves. We are vertically integrated. This is most syndications. If we project a five-year hold and give the investor a 2X equity multiple or a higher ROI in 18 months or 24 months, investors like that a lot. We like that, too, because we can move on to the next one. Those are generalities. Sometimes, it's very deal-specific. Since there's so much distress and so much value created in the first 12 to 18 months, what we're going to do is, after 18 months, we put the property on the market and see what traction we can receive. As long as we can give the investors the projected return, then we would exit at that point.

Tweet: If we can give the investor a 2X equity multiple in 18 or 24 months, investors like that a lot—and we like that, too.

Lessons Learned: Team & Contractor Selection

Thinking back, if you had to do this deal again, what would be one thing you would do differently?

We have a tremendous team. We have a great team. The GC has been somewhat challenging to work with. This is what I would do. One of our partners has a GC business. We didn't know that going into this. I've known Matt for three years. I didn't know he had a GC business. We're working with one GC. If the investor who has money in the deal is also doing the work, they're very incentivized. We've had a hard time with the GC up until this point, after six weeks of ownership. They're still doing their job. They're okay, but the result would be much different. If I could go back, we would use our partner's company for the renovation, but everything is going to turn out fine.

How interesting that he didn't raise his hand.

First, he is multifamily. He didn't want to step on our toes, so to speak. Probably two weeks before closing, he said, “I have a GC business, so if you guys need help.” We were like, “That would have been good to know.” Also, with lending, we're 80% loan-to-value and 75% cost. He thought we could get much better terms with his lender. We learned that two weeks before closing, so we weren't going to abandon ship at that point. Live and learn.

Thank you so much for joining us and sharing your knowledge and expertise with us. If the audience

wants to learn more and connect with you, how can they do so?

You can find me as Caleb Johnson on LinkedIn, or you can search RedSeaCapitalGroup.com. We have a free due diligence checklist. You are more than welcome to sign up for that, and you'll receive that.

Thank you for being with us here. We look forward to hearing about your future deals.

Thank you for having me. Thanks to all the readers.

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