Whitney Elkins-Hutten of PassiveInvesting.com interviews Lane Kawaoka of The Wealth Elevator in this exclusive episode to deep-dive into the full lifecycle of a notable multifamily deal: Courtney Square Apartments, 96 units located in Huntsville, Alabama. Discover the unconventional acquisition strategy that secured this Class B property at a "smoking amazing" price of $50,000 per unit right before the market peaked. Lane reveals the strategic rationale behind putting long-term fixed-rate debt on the asset and how his team navigated the business plan amidst rising interest rates and "rent softness" that hit the market from 2022 to 2024. Most crucially, learn how Lane successfully executed an exit in 2025—a notoriously tough market—more than doubling investor returns and why holding onto the cash-flowing asset was not the best strategy for maximizing returns. This episode is packed with essential lessons on basis, capital deployment, and the evolving role of diversification for today's syndicator.

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96-Unit Courtney Square Apartments In Huntsville, AL With Lane Kawaoka, Multifamily Syndicator

I'm excited to be joined by Lane Kawaoka. Lane, welcome to the show.

Thanks for having me. Aloha, everybody. It's been a long time, Whitney.

Before we dive into Courtney Square Apartments, 96 units in Huntsville, Alabama, tell us a little bit about your background and where you're at in the multifamily space now.

Lane's Multifamily Investing Background And Transition From Single-Family To Multifamily

Background, I used to be an engineer back in the day, but who was not, I guess half of people were engineers because we don't have too much money, so we have to do something else. Started investing in 2009 with the single-family home in Seattle, got another duplex there, and then did a bunch of turnkey rentals, eventually having 11 of those things in 2015, and then realizing, "This is not scalable," and that's where I jumped into the whole multifamily circuit.

I joined a bunch of groups, got some mentorship, and then just plugged away from there. I started syndicating back in 2017, 2018. I think that's where we started and maybe that's good context because we started in that era, got through those first Class C properties, the smaller units. This Courtney Square is 96 units, a little bit bigger, a little bit nicer, but you know that the acquisition was teed off from years prior to that.

Yes, Lane, I know a little bit of your backstory there. This is a great deal for us to discuss. Let's talk about it. Courtney Square and for the record, 96 units, Huntsville, Alabama. Okay, so when did you close on the property and what was the purchase price?

This was back in 2021. I don't really remember what the purchase price is. I'm just more like how much did we make. Purchase price $4.8 million. You guys are always interested in the in the nitty-gritty details. On this one, we had fixed rate debt, ten-year term. Normally I'm like eight years is good enough because the longer it is, the more you pay for it. You have prepayment penalties, that type of stuff. Yeah, $4 million in senior debt, 2.5% in common equity in this one.

Did you have a recent capital event, say in the past twelve months, on the property?

Yeah, we sold.

Let's talk about it. You said that the story of this apartment is around the acquisition. Since you did have an exit in the past year, I do want to help people understand how did somebody exit a multifamily deal in this tough market environment? Let's start with the acquisition. You got the property under a contract or you find the property. How did you find it? Were you working with a broker? Was it direct mailer to the seller? How did you find it?

Acquisition Strategy And Finding Courtney Square Apartments

Traditionally, we'll go through brokers because we like the 90% occupied and greater buildings. On this one, we had a previous relationship with the seller. I forget which property it was, but we bought another property from this family in early 2020. I remember because I was in Huntsville and I was super sad because Kobe Bryant died on the day we were touring it. That's 2020.

I can't remember the story exactly, but the story was essentially the patriarch of the family was on his deathbed and I think he did pass away when we were in the last months of the transaction. It was a case where the kids, and I actually think it's like third or fourth generation net worth because I saw their home on Google Maps and I'm like, "He owns an island out there."

The kids wanted the cleaner assets, I believe in Miami, and didn't want the boring Class B assets that cashflowed in boring Huntsville, Alabama. We got a good deal on that and we built that relationship. We tend to not dick around when we go through these transactions and retrade. There was that relationship already set up. We've actually gotten another deal in similar way where you just stay in there and then you just get called from the seller who just wants an easier transaction.

Tweet: Build that relationship. Don't mess around during these transactions and retrades—you just stay in there. That's how you get a great deal.

That's how I found it. That's how you get a great deal, and when we talk about deals from operator to operator, we usually just cut to the chase and say, "What price per unit, what did you get?" I think it was $50,000 per unit and that's pretty smoking amazing for that Class B asset. Obviously, we eventually sold it for like $91,000 a unit there. I think at the time, assets were probably selling around $60,000 for that type of asset class.

You get the property under contract, you close, and this is in a very different market. You're closing in 2020 right before COVID, but still asset prices are pretty high. You hold on to this. We can talk about the due diligence and stuff like that, and if the capex plan impacted your ability to exit. I do want to talk about the debt and then get into the actual sale of the asset. How did you position it for sale? What debt did you put on this property?

I can't remember exactly, but it was probably Fannie Mae/Freddie Mac. It was long-term debt, ten years. Again, normally I think 8, 10 years is usually overkill, and sometimes we we'll take a look at it right before we close and what do we do a 6, 7, 10-year. We just look at the prices and it's a bit of a judgment call within the GP which ones we go with. We went with the ten-year. I think on this and because we got it at such a great price, we're like, "Might as well just pay a little bit extra."

I don't know what exactly the price difference is when you project it out five-year hold, but it was maybe a difference of $250,000 in future dollars. It's not much. I think that's why we went with the ten-year, but obviously, we exited prior to even an eight-year hold, so plenty of safety margin there. This is one of those deals where it's an idiot could have ran this deal.

To be honest, the biggest thing is you're picking it up at $50,000 per unit and the market is as such. Whenever you look at a deal, if the deal doesn't slap you in the face, it's a good deal because of one thing then usually you're trying to finagle the deal or it requires extreme operational ability and guiding of the ship once you're in it. I don't want to go ahead, but any questions on the debt you had there?

No, let's talk about the business plan on this particular deal. You close it at $50,000 a door, it's a B-class property. Did you have a value-add strategy in association with this?

Business Plan, Value-Add Strategy, And Navigating Market Risks

Yes, and it's going to be super generic that I'm sure you've talked about many times on the show. I've got it written down here somewhere but renovation budget was in that $5,000 range, which doesn't sound a lot. We do some Phoenix stuff and for the same amount of stuff you can get done, you need $15,000 or $20,000, 3 or 4 times amount of money out there than Alabama.

This was before inflation really ticked up. This is prior to all of that, but your standard appliances, paint job. It wasn't a gut rehab, it was still a good property. The previous seller had developed it. When you do it like that, they develop it for life because they're the eventual owners. They had built it really well, but just reading the list here. Exterior paint, seal and stripe the parking lot so not a major thing there. The pool just needed to be resurfaced, obviously pool fence and furniture. The fence always helps from the aesthetic appeal and a safety thing.

Typically, it's mandated by the lender to do things that, office remodel. This one didn't have a huge office so the remodel was relatively inexpensive where typically, on a bigger property, you may be spending $500,000 on that stuff. Dumpster enclosures, because that's always a big contentious thing on these properties. Everybody's throwing their junk there and it's just piling up. It just looks horrible to a new tenant. Switching the property management but as far as big capex that people haven't heard of before, nothing really outside the box on this one.

Okay, so you have a property, you buy it in amazing price, you put nice fixed-rate debt on it from a government-sponsored entity, which is where most people would have loved to have been holding these types of assets in 2020 and 2021. It is 2020. I remember the day that Kobe Bryant passed away.

Yeah, everybody remembers that time.

My husband walked in the door and told me, I'm like, "You're joking." I also remember during that time, there was already a lot of grumbling in the market about what are the impacts of COVID and everything. What was happening for you in your underwriting that made you feel super confident that even if the market did take a sideways turn or go down in the face of COVID as it was spreading, that you'd be okay on this asset?

Normally we'll use our what we define as conservative assumptions. Of course, investors need to always check that stuff because conservative could be mean nothing. Namely the reversion cap rate usually to use an exit cap rate that's roughly at least half a percent higher than in-place prevailing cap rates. What that means is you're assuming that you're selling it in a worse market. Obviously, in 2022 to 2024, we saw a correction of the market that well exceeded that half a percent buffer by 3x. It's like you build a 10 10-foot wall sandbag wall and you get hit with a 30, 40-foot wave.

I think on this one we got a bit lucky because we were able to acquire it not at the peak of the market. Obviously, a good basis. At the end of the day, that's really what made the deal. You bought it at a good basis. If you're able to get established before the rent softness came and I think it was 2023 is when the rent softness came and before you're able to get some traction on turning over the units. When the market started to correct, you had a head start in a way, or as I say, the nuclear bomb went off and everything corrected right around mid-2023 because interest rates started to go up by mid-2022.

By mid-2023 going into 2024, that was when there was a huge decay in pricing, in particular to our smarties out there, the cap rates went up by at least a whole point, maybe even two everywhere, in all asset classes and markets in multifamily in particular. We were just lucky that we had so much buffer there. That's what happened in that.

Courtney Square Apartments: By mid-2023 into 2024, there was a significant drop in pricing. For those paying attention, cap rates rose by at least a full point—maybe even two—across all asset classes and markets, especially in multifamily.

Let's talk specifics on this particular property. You close it ahead of the impending headwinds that are coming towards you with the rent softness. You get a little bit of jump start on your business plan, you're able to rent raise rents a little bit. Let's talk about 2022 and 2023 when things did start to soften. How did you adjust your business plan on this particular asset?

I think at that point, all markets new supply came on online or started to come on and you started to see a little bit more rent softness. Now luckily in Huntsville, we didn't see the rent softness and new supply that a primary market or secondary market a Phoenix or Austin started to see. Certainly, in those cases, say if your business plan is to put in $10,000 into the unit and see a $150 rent bump and now you're getting $50 per rent bump, the question is what are we doing this for? Why are we renovating this unit? Perhaps we should take that $10,000 and put it into the reserves.

I use that example because it's a little bit more extreme. Here it's a lot more mild. Here, the cost of the renovations is way less and the rent bumps that we were getting were still relatively modest. They weren't as high as projected because it was being purchased at a different time. This is probably consistent with all operators out there, although I don't think of them admit to it. Most will say, “We were continuing on with the business plan,” but then it's like, “Why were you doing it?”

That doesn't make any sense. If you're not getting the rent bumps, why burn up the money? The valuable money, especially when you have a short-term debt deal and you need to refinance, which we weren't in that case. I glaze over that because a lot of that's written in blood, at least for speaking for myself and people in industry. You needed every single dollar to refinance your deal if you were forced to refinance because everything came crumbling down.

It was very common that you needed $3 million, $4 million, $5 million to get back up to the LTV at the new rates at that time when your loan renewed in 2 to 3 years. For us, that was not part of the equation right because we had a lot longer runway, 8 to 10 years on top of that. In theory, we could have just said, “Whatever. The market should go up back up in the next 5 to 7 years.” We still played it a little gingerly because it was just prudent. All the deals are siloed and not connected.

They should be per your PPM. Depends on what the PPM says, of course. We'll do these deals in typically single asset llcs. The biggest ones we've done is maybe a 2 or 3 pack, we put two properties in one fund. In in those cases, I believe there's some mechanisms to commingle reserves in those cases. Courtney Square was on its own and in a way, it could have just kept propelling on.

As owners and operators ourselves, we are ultimately the personal backstops of the deals and if we're being pulled in many directions and our reserves are being exhausted, it gives us less confidence to push a deal like Courtney Square more aggressively in the future. That was why we pulled back a little bit on the aggressiveness of the renovations plus we had a big lead. We bought it at $60,000, at such a good basis that we were in a good place. Nothing was really pushing us, I guess.

Courtney Square Apartments: As owners and operators, we are ultimately the personal backstops of our deals. If we're pulled in too many directions and our reserves are depleted, it gives us less confidence to pursue deals like Courtney Square aggressively in the future.

You go to exit in 2025, which quite arguably is not one of the best markets to exit in. Were you exiting because you had met the business plan and the returns that you had promised to your investors? What was the strategy here?

There's never written in stone. Ultimately, you have to face your lps and justify the reason. We had more than exceeded the projected returns on the deal. From that point, it's like, "All right, done. Enough said." to justify it, it was frustrating because in these types of the deals, these are the deals you triple or more your money if the cap rates would have stayed consistent or even just went up by half a percent not the full percent and a half in that market.

You have that many investors, you're going to have five guys that just complain. Even though they more than doubled their money. They just complain and whatever. Don't invest with us, please. I don't want to deal with you any longer. The justification is there wasn't much to do here. Yeah, we pulled back on the business plan a little bit but really how much could we have made, how much could we have bumped the NOI at the end of the day?

At this point, if you were to return capital, where would that money have gone? This is a point in the market cycle which I think we're still in now, the Warren Buffett fear in the streets. Rule is still, in fact, nobody has liquidity. Nobody has freaking money, which is the opposite of 2021 where everybody's just rolling into deals every 2 or 3 years. Complete opposite. Obviously, those are the lessons learned and the signs of the peak of a market. Note to self. At that point, you took a look at deal and say, “At least speaking for ourselves selfishly as a general partners, would I rather have my money out to invest in something else?”

I'm like, "Heck yeah, that's a no-brainer." that's where the second checkbox came from. To just sell it, deploy the assets. I think a lot of people are just holding on to some deals not to lose their money, but for new money coming in, that's a lost cause. That's a horrible investment. You're not going to really make any money on that.

Sometimes, people have to silo going in and on other deals if they're going to go rescue their old capital, but their new capital's not going to make a single penny. I think as an investor, you need to decide, “All right, I need to segregate old money and new money and new day forward on my new money, where can I make the best return on it?”

Sadly, I have no control over what investors do once they get their money back. Once it's theirs, they can go roam free. Sadly, I think the traditional psychology that you would assume when there's fear in the streets, like there is now, they stick that money in their pocket and they don't partake in the growth of the market, like 2010 to 2015 was. In theory, they probably would make more money if they left it in the game, especially in a more secure more stabilized asset that was freshly renovated Courtney Square. Prudently speaking, if you follow what AI would do, you would return a capital redeploy it to other assets. That was what went into the decision analysis, I guess.

Two questions came up for me there. One, if Courtney Square was performing and cashflowing, why not just hold onto it until you could probably sell it at a better price point? What was the thought process there? Two, you bring up AI. I know you just passed a little nugget bomb there and rolled on. A lot of investors are leaning on AI. What are they doing right and what are they doing wrong?

We'll come back to that second question, but the first one, hopefully I made it clear that there was really not much to push in terms of force appreciation. People may argue with me on this, but in theory, once you've pushed the force appreciation portion of an asset, you sell it because as an operator, your business plan and your highest and best used is to add value to the asset and then when you're done, you sell it. An extreme example of this just to illustrate is when you're a house flipper. When you flip the house and you renovate it all up, you sell the thing because at that point, the only place that asset can go is decay and go down. That's the theory.

You and I have history together so I love pushing the envelope on this conversation if you'll allow me, but simple passive cashflow. An investor is investing in a deal to get cashflow. Do you think that's alignment between the limited partner and the operator and how can how can better alignment be created?

Lessons On Cash Flow, Equity Multipliers, And Diversification For High-Net-Worth Investors

This is where a little bit of maybe a getting older now but I guess when I initially got into this game, I was just simply trying to replace my engineering salary. Cashflow was the name of the game. What I’ve realized is people with a net worth over $5 million, $10 million, they could care less about cashflow. They want equity multipliers. They want to roll it. Once you get to a point of higher net worth, even $5 million at the very least, you start to get out of these multifamily alternative investments. You don't play around with this stuff anymore.

Tweet: Cashflow is the name of the game—until you hit $5 million in net worth. Then it's all about equity multipliers and rolling investments. At that level, you don't play around with multifamily alternatives anymore.

This is where it's relatively higher risk and higher return, too. We should all hope that it all follows the linear sharp ratio of equal reward to risk. It does not always follow that, that's why you need to be a good astute investor and run due diligence. The idea is these deals are value-add plans. You are to try aggressively to grow your money. In that's the name of the game. Some people argue, "What about the tax? You got to defer taxes." If you got the whole lazy 1031 exchange strategy, you've got to figure out your own thing on your own.

At least speaking for what was the goal when we went into this thing. The goal was to bump the net operating income by 10%, 20% so we could all try and double our money when you leverage that that high, 70%, 80%. That's essentially the business plan on these types of things. Maybe I wasn't super specific because it is confusing and most passive investors never really think about this stuff in the front end because there's so many different scenarios. If a market get really shaky and actually if a market gets shaky you exit. You exit early, even if you're only done with 10%, 20% of the units in theory.

In this case, the market prospectus was, you hit the bottom. In theory, you're going to come up is chances are. You predict off the phantom financial curve where interest rates are and interest rates really impact commercial real estate prices. Nobody knows. Sometimes it's that saying. One in hand is better than two in the bush. That's the idea. Quite frankly, again, I just keep coming back to, Whitney, if you left your $1 or your $100 in this deal, what would you really make from here on out?

I don't know. The market comes down a tenth of a cap rate point every year, that's standard. Five years from now, half a percent of cap rate, maybe I'm just thinking off the top of my head. Maybe that's 10% a year. So you get $150 on a $100 from this point out. What if you took your $100 and went into deals that totally got crashed from the peak of the market? You're buying it at pretty good rates now and you have a value-add business plan that has not been implemented yet.

There's could be a potential, all risks. Get $200 or double up. What would you rather have, $200 or $150? Sure, one's got a little bit more risk but it's a good risk adjusted play. We're not here to sit on your money. If you want to just sit on your money, that's what you put your money into life insurance or closed-end funds. I'm not supposed to do certified financial planner stuff. I don't tell people what to invest in. That's just what I would d if I was in cruise control mode, had a lot of money. I could just coast on it. This is the name in the game. We're here to kick butt and take some names and renovate some units and add value to the world.

Let's pivot. When you went to put this property up for sale, was it a smooth transaction? Tell me how the transaction went. Not necessarily who did you sell to but what kind of buyer did you sell to? Did they try to retrade on the asset? It's May 2025. I know everybody's trying to get a great deal.

I'm going to be careful what I say because I think I've seen them before. It wasn't a big institution. It was just some guys like us who got started maybe a few years later. Put it that way. It was not a large institutional player because it's small. It's under 100 units, 96 units, so it wasn't a huge one. They typically don't want to buy anything under 200 units. Just another syndication group that was getting going.

Did you guys sell at what you wanted to or did you guys have to retrade on the price?

Admittedly, at this point, we more than beat the original projection so it wasn't a huge oppression. Of course, if any investors are reading, they're in the deal, yes, we do what we always do. We push and we prod and we negotiate, push back. Once you get to the stage of the game, these deals are they're too big to really be influenced. You're going to sell it for the fair price.

We've seen a lot of different issues come up in the closing and the property. How were you able to be confident that this group was going to be able to close?

We weren't because nobody was able to close any of their properties. I think we were closing another property at the same exact time and that one took six months. Most commercial deals close in 2 to 3 months. It just seems it takes double or triple that these days. Empathetically, I get it. That's why we're not buying.

We're not really buying anything in 2022 to 2024 ourselves because the lending is so horrible. The rates where they're at more importantly the underwriting. The banks have nothing better to do than actually count the toothpicks in the kitchens. The scrutiny of the loan. In 2021, correct me if I'm wrong, but the volumes of transactions that was in 2021 was 5x at least than what it was here in recent history per year.

It's definitely significantly more, for sure.

That's my take it but you could imagine being a underwriter. You're just getting inundated with 5 or 10 times as much stuff in 2021 and now things come to a squashing halt. Maybe you're just trying to justify your job because your boss is going to fire you because there's not as much revenue coming in. It's a strange environment. Not fun to be in commercial real estate these last several years for anybody.

As we wrap up, Lane, what's one belief about multifamily investing, especially in recent years, that you've completely changed your mind on?

I got really lucky. I started the at the right time, 2009, buying little rental properties and then 2015, switched to more commercial stuff. I admit I rode a good wave. I also had the cojones to go all in, too, so 90% plus of my net worth was in this stuff. In the correction, yes, did I feel it, for sure. People talk about diversification and maybe the mistake I made was I felt diversification was like, “I get a little Alabama stuff, get some Texas stuff, some Phoenix stuff. We're diversified.”

Tweet: People talk about diversification, but I used to think it meant spreading across Alabama, Texas, Phoenix—thinking I was diversified. What you don’t realize is many of these investments are correlated. Until you truly understand that, it’s just academic.

What you don't realize is a lot of these things are correlated. Until you learn these things, it's just academic. Even before this, I understand the concept of non-correlated assets when the stock market takes a dump because Jensen says something about NVIDIA chips one way or the other and everything else bombs out, all those things are correlated. I understand that. I think myself and a lot of people in the industry didn't quite correlate how commercial real estate is a national thing and in particular, what the poison pill was interest rates skyrocketing to a 40-year high, the quickest time in history and that obviously impact multifamily, which now I think you're starting to see it trickle down.

Now you're starting to see the impacts finally touch self-storage and some of these other asset classes out there. That's definitely a lesson learned, diversification, which is why now I rely back on the people that I've grew up with and what are their portfolios look like. I still think for a newer operator, you have to focus on something. You can't play the diversification game. The diversification game is cool when you have a boatload of money, $5 million, $10 million and you can just diversify it. You could just put it all in T-bills if you wanted to.

However, when you're trying to build a legacy and you're under that $5 million net worth threshold, it's really hard to build a dynasty by just playing it safe. More reward comes more risk, obviously, but yeah, I think for me, I still like multifamily. I'll still continue to do it, but I've maybe moderated the amount of stuff. I don't know what exactly that number is, but definitely not 90% of my portfolio anymore.

Lane, thank you so much for sharing your insights with us here. If readers want to connect with you and learn more, how can they do so?

Shoot me an email at Lane@TheWealthElevator.com.

Thanks again and we look forward to hearing about your future deals.

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