

The Disciplined Investor Podcast – Guest Interview Summary

Guest: Ben Kahle

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Summary

Real Estate Investment Strategy Overview

Benjamin, a managing partner in Virginia, discussed his journey from a part-time intern in 2015 to his current role, emphasizing his experience in real estate and private equity. He explained their investment strategy, focusing on equity in commercial real estate, particularly in multifamily apartments, self-storage facilities, and mobile home parks. Benjamin highlighted their unique "JV Hybrid" structure, which provides downside protection while offering the same upside potential as common equity, and stressed the importance of evaluating potential owner-operators based on their openness, humility, and ability to learn from past mistakes.

Private Equity Real Estate Investments

Benjamin explained their private equity structure, focusing on investments in commercial real estate, including multifamily apartments, mobile home parks, small bay industrial, and neighborhood shopping centers. He emphasized that their preferred equity offers a 7-10% current pay and a capped upside, while retail investments, despite negative headlines, have been performing well due to supply and demand imbalances. Andrew clarified that private equity investments require accredited investors and often involve drawdown funds or sidecar opportunities, where investors may not need to pay the full amount upfront.

Private Equity Investment Mechanics

Benjamin and Andrew discussed the mechanics of capital calls and drawdowns in private equity investments, emphasizing the importance of understanding that these investments are illiquid and long-term. Benjamin explained that investors are typically on the hook for their commitments, and if they fail to fund their share, the fund may withhold distributions or buy them out at a significant discount, which Benjamin noted is generally around 15-25%. They also touched on the challenges of explaining these complexities to RIA clients, highlighting the rarity of RIA advisors offering commercial real estate investments due to their illiquid nature. Benjamin predicted a potential shift in the next five years, with more RIA interest in such investments.

Private Equity in 401Ks Challenges

Benjamin and Andrew discussed the challenges of integrating private equity and illiquid investments into 401Ks, highlighting potential issues with fee structures and liquidity. Benjamin clarified their typical fee arrangement, which includes an 8% annual hurdle rate and a 1-1.5% asset management fee, with returns split 80-20 after the hurdle is met. They also explored the impact of supply constraints in the commercial real estate market, particularly in multifamily apartments, due to increased construction loan and material costs since 2022.

Multifamily Market Dynamics and Challenges

Benjamin discussed the current state of the multifamily real estate market, highlighting how supply and demand dynamics vary significantly across different cities and sub-markets. He explained that in some areas like Chicago and Minneapolis, limited new supply has led to strong rent growth, while other markets like Dallas, Fort Worth, and Atlanta have seen negative rent growth due to oversupply. Benjamin also noted that the recent shift in interest rates has exposed less competent operators in the commercial real estate sector, emphasizing the importance of strong day-to-day operations and processes.