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WEALTH ACCELERATOR FORMULA

If you have been involved in commercial real estate you have most likely heard someone say **"I'm a buyer if the numbers work."**

What that means to each investor is different — and it has changed. When money cost 3.75%, cheap debt did the work: a 25-year loan carried a constant of about **6.2%**, well below the cap rates people were paying, so leverage alone produced a return. That era is over.

Today a 25-year loan at **6.75%** carries a constant of **8.29%**, and quality product in our markets still trades in the sixes. The market will not hand you a return anymore. **You have to create the spread yourself.** That is what forced appreciation — "value add" — is for.

STEP 1 — BUY THE RIGHT DEAL

Investor cash to invest (down payment + 3% costs)	\$564,000
Purchase price	\$1,400,000
Going-in cap rate	6.50%
Net operating income	\$91,000
Loan at 6.75%, 25-yr amortization — 62.7% of value	\$878,000
Annual principal + interest	\$72,794
Debt service coverage ratio	1.25x
Year-one cash flow after debt service	\$18,206 / 3.23%

Assumes in-place rents are 25% below market.*

Two things to notice before Step 2

Your loan is 62.7%, not 75%. At a 6.5% cap the 1.25x coverage test — not the lender's LTV ceiling — sizes the loan. Budget the equity accordingly. **And year one is negative leverage on a cash basis:** 3.23% cash-on-cash against a 6.5% unlevered yield. That is not a mistake. You are not buying current yield; you are buying the right to fix the rent roll.

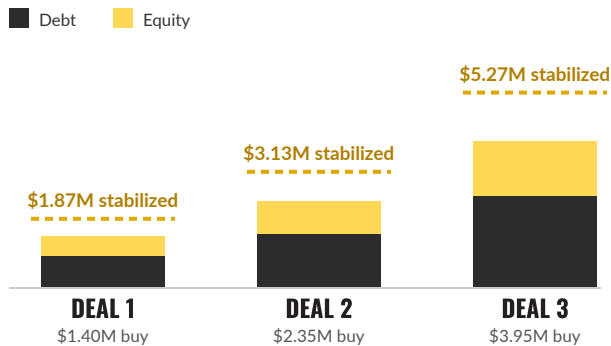
STEP 2 — FORCE THE VALUE

Move rents to market — NOI rises 33%	NOI \$121,333
Exit cap rate — held flat, no compression	6.50%
New value	\$1,866,700
Less purchase price of \$1,400,000	\$466,700 gain
Stabilized cash flow	\$48,539 / 8.61%

STEP 3 — ROLL IT FORWARD, TAX DEFERRED

Sell with a 1031 exchange	\$1,866,700
Less 4% cost of sale	-\$74,668
Less loan payoff after 36 months of amortization	-\$833,149
Net exchange proceeds — buys a \$2,350,000 deal	\$958,883

Repeat Steps 2 and 3 and the ladder compounds — about three years per cycle.



\$564,000 INVESTED

\$2,705,000 net equity in year nine

\$664,000 cumulative cash flow

6.0x total equity multiple

24.8% internal rate of return

Cap rate held flat at 6.5% throughout. No market appreciation or cap rate compression assumed; year nine is net of a 4% cost of sale.

Why 25% below market, and not 20%

At a 6.5% going-in cap, a rent roll 20% below market takes yield on cost to **8.13%** — still below the 8.29% constant. Even stabilized, the debt works against you. At **25% below market**, yield on cost reaches **8.67%**, clears the constant, and leverage finally works for you. In a 3.75% world a 20% discount was plenty. It is not anymore, and that is the most important screening rule in this market.

The full return stack

Cash flow is only one of four returns. On Deal 1: **3.2%** year-one cash flow rising to **8.6%** · **2.5%** principal paydown · **\$29,579** of depreciation, sheltering about **92%** of year-one taxable income · and **\$466,700** of forced appreciation on \$564,000 invested. Market appreciation is on top; this model assumes none.

How we find these deals

Finding a rent roll genuinely 25% below market is a data problem before it is a negotiation. We screen with **CoStar**, **CREXi** and **LoopNet**, verify market rent with CoStar lease comps and **Retail Lease Trac** retailer demand, and use **ProspectNow** to reach owners who have not listed. Then we underwrite with **Claude AI** — debt sizing, coverage tests, exit sensitivities — so you get a defensible answer in days, not weeks.

Better than average returns are built, not found.

Call **772-266-9065** or email rich@vaaler.us today to schedule a confidential meeting and discuss how Vaaler Commercial Real Estate can help you achieve better than average returns on your investments.

* Illustrative only; actual returns vary with each investment. Assumptions (August 2026): 6.75% interest, 25-year amortization, loan sized to a 1.25x coverage test (62.7% of value at a 6.5% cap), 6.5% going-in and exit cap rate, 3% acquisition costs, 4% cost of sale, 36-month hold per cycle, 80% of basis depreciable over 39 years. In-place rents assumed 25% below market; NOI underwritten to rise by the same 33% as rents — conservative, since fixed expenses generally cause NOI to rise faster. Year-nine equity and IRR are net of a 4% cost of sale; equity if held is \$2,916,000. Rates per Select Commercial and Commercial Loan Direct surveys, August 2026. Calculations by Vaaler Commercial Real Estate. Not tax or investment advice.