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Negative Leverage? Check the math again.

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At 7% Rates, Your 4% Deal Is Really an 8% Deal

Cash-on-Cash is hiding almost half the return. OmniReturn™ shows all of it.

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Interest rates are the conversation in commercial real estate right now. Debt service takes most of the NOI, Cash-on-Cash comes in thin, the buyer compares it with a Treasury yield, and the deal dies.

But Cash-on-Cash only counts the dollars that reach the bank account. It ignores the principal your tenants pay down every month, and it ignores taxes. In a high-rate market, that is almost half the return.

One example at today's numbers

A \$16.5 million apartment purchase with 70% LTV, a 7% rate, and 25-year amortization:

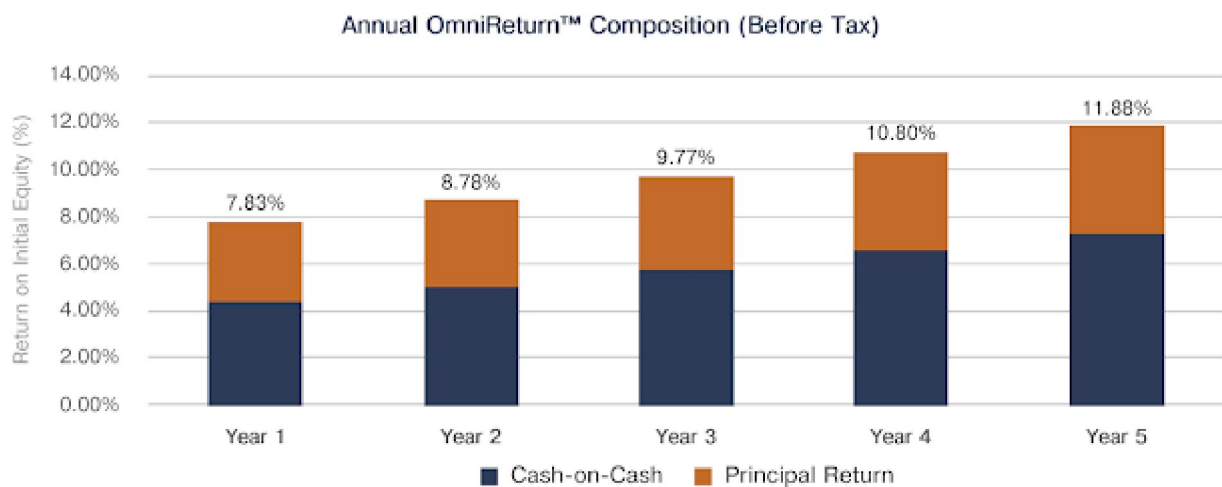


Return component	Before tax	After tax
Year 1 Cash-on-Cash	4.39%	4.90%
+ Principal Return	3.44%	3.44%
= Year 1 OmniReturn™	7.83%	8.34%
5-year average OmniReturn™	9.81%	9.71%

Most buyers stop at the first line.

Three things OmniReturn shows that Cash-on-Cash can't

1. The hidden half. In this example, 44% of the Year 1 return is principal paydown. It is contractual, not a projection. No sale, no exit cap rate, no appreciation assumed.



Cash flow is only part of the picture. Principal paydown adds to annual wealth creation in this five-year projection. Source: TheAnalyst PRO OmniReturn™ report. Before-tax figures; illustrative example.

2. “Negative leverage” may not be. Bought all-cash, this property earns 7.27%. Cash-on-Cash says the loan cuts that to 4.39%. OmniReturn says the loan lifts it to 7.83%. The return didn't disappear when rates went up. It moved from the bank account to the balance sheet.

The test: run the deal both ways. If the leveraged OmniReturn beats the all-cash OmniReturn, the loan is adding to your wealth, even when Cash-on-Cash says it isn't. The report shows both side by side.

3. After tax, leverage wins clearly. Mortgage interest is deductible, and the leveraged investor depreciates the entire building while putting up only 30% of the price. After tax, that is 8.34% leveraged versus 5.61% all-cash in Year 1. Over five years it averages 9.71% versus 5.93%. And Year 1 is the floor: as NOI grows and each payment shifts toward principal, OmniReturn climbs every year.

In a recent class with DFW commercial brokers, one broker told me about a family trust he was working with. The trust buys and never sells, so IRR means nothing to them, and the Cash-on-Cash return had come in under their target. Then he showed them OmniReturn and the wealth the property would create each year. They moved forward with the deal.

“They'd already said no. OmniReturn got them to yes.”

— DFW commercial broker

How CRE pros are using it

Brokers and agents: when a buyer says the deal doesn't pencil at today's rates, add the OmniReturn™ section to the package and show the return they can't see.

Investors: compare loan quotes on the wealth they create, not only the cash they leave. The OmniReturn report's Capital Structure Matrix shows every combination of LTV and amortization side by side, with the DSCR for each.

Lenders: show borrowers what the loan builds, not only what it costs.

OmniReturn will not turn a bad deal into a good one. It makes sure a good deal isn't judged on half of its return.

Run an OmniReturn™ report on your next deal in TheAnalyst PRO. New to OmniReturn? Start with last month's article, "[Introducing OmniReturn™: The Missing Measure of Annual Real Estate Return.](#)"

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Example figures are illustrative and for educational purposes only. After-tax results assume a 37% federal tax bracket, no state income tax, and tax losses offset against other passive income. This is not investment, legal, accounting, or tax advice.



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