CAPITAL SUCCESS LLC

Commercial Finance · Care Home Financing · SBA & DSCR Lending

Capturing the Full Arc

How Value-Creation Happens

*Using the **Rental Investment DSCR Analyzer** with the **Care Home Leaseback Modeler** to illustrate a deal structure.*

This packet follows a single property through the three phases of a Purchase → Lease-with-Option → Sale-to-Operator transaction. Read together, the two analyzers show how the same home creates value at each step — first as a financed acquisition, then as a Care Home leased to an operator, and finally as an owner-occupied asset the operator buys back with SBA financing. The structural memo that follows explains what the numbers mean for both the Landlord and the Tenant-Operator.

HOW VALUE-CREATION HAPPENS

PHASE 1

Purchase

The Landlord acquires the property — financed and underwritten as a conventional rental.

PHASE 2

Lease with Option

Leased to a Tenant-Operator running a 12-bed Care Home, with an option to buy.

PHASE 3

Sale to Operator

The Operator exercises the option and buys the asset with SBA 7(a) financing.

WHAT'S INSIDE THIS PACKET

1. **Structural Memo.** How the Purchase → Lease-with-Option → Sale-to-Operator transaction works, with the combined leveraged-landlord view.
2. **Rental Investment DSCR Analyzer — Sample.** The acquisition underwriting: DSCR, cash flow, cash-to-close, and equity projection for the Landlord.
3. **Care Home Leaseback Modeler — Sample.** The Landlord-vs-Operator projections, occupancy sensitivity, and 3- and 5-year buyback economics.

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Care Home Sale-Leaseback with Purchase Option

How a Purchase → Lease-with-Option → Sale-to-Operator transaction works

Illustrative example: Brassville Modeler Test V1 — 3578 Brassville Ave N, Melton, AZ 87654 · $805,000 basis · 12 beds

The Transaction in Three Chapters

This structure moves a single property through three connected phases, each of which changes what the asset is worth and who carries the risk. The two accompanying analyzers model the same $805,000 home at 3578 Brassville Ave N, Melton, AZ 87654 — first as an ordinary acquisition, then as a Care Home leased to an operator with a built-in path to ownership.

Phase 1 — Purchase. An investor (the Landlord) acquires the property. Underwritten as a conventional rental, it supports $6,900/month in market rent at 75% LTV and a 1.25x DSCR.

Phase 2 — Lease with Option. Rather than renting it out conventionally, the Landlord leases the home to a Tenant-Operator who runs a 12-bed Care Home. The Operator pays rent, funds the leasehold buildout, and holds an option to purchase the property later.

Phase 3 — Sale to Operator. After a three- or five-year hold, the Operator exercises the option and buys the property with SBA 7(a) financing at an appreciated, partially-credited price — converting a tenant into an owner without a market sale.

The Value-Creation Thesis

Same property, two uses	Rent to Landlord	Landlord NOI
As a conventional rental	$82,800	$62,300
As a Care Home leaseback	$119,543	$88,085
Uplift	+44%	+41%

Valuation kicker. The rental view implies a 7.74% cap rate. Applied to the Care Home NOI of $88,085, that same cap supports an income-based value approaching $1.1M — meaningfully above the $805,000 purchase price. Buying at a residential price and stabilizing Care Home income can create lease-in-place equity, contingent on a creditworthy operator and a formal special-use appraisal at exit.

The Landlord's Leveraged Position

Leveraged Landlord (illustrative overlay)	Annual
Care Home rent received	$119,543

Leveraged Landlord (illustrative overlay)	Annual
Less: management fee to Operator	($31,457)
Landlord net operating income	$88,085
Less: acquisition debt service	($49,916)
Levered pre-tax cash flow	$38,169
Cash invested at closing	$215,146
Levered cash-on-cash return	17.7%
Landlord DSCR at Care Home rent	1.76x

For comparison, the conventional-rental view returns just **5.76%** cash-on-cash at a **1.25x** DSCR. The leaseback roughly triples the levered cash yield and strengthens debt coverage. Note that a Care Home-leased property typically finances as commercial paper rather than under the residential DSCR terms shown in the acquisition view — so treat this overlay as the illustration of the leverage upside, not a guaranteed loan structure.

Risk Transfer & Occupancy Resilience

Occupancy	Rent cover	Operator profit	Landlord NOI	Landlord IRR (5yr)
95%	1.86x	$138,382	$84,384	11.79%
85% (base)	1.56x	$98,600	$88,085	12.27%
75%	1.26x	$58,819	$91,786	12.74%
65%	0.96x	$19,037	$95,487	13.22%

Break-even thresholds. The Operator covers rent (1.0x) down to 66.39% occupancy and breaks even on total profit at 60.21%. The base case of 85% leaves roughly 19 points of cushion before rent coverage is at risk — the tail risk being a defaulting tenant below that line, not the Landlord's own cash flow.

Year-1 Economics, Side by Side

Metric	Landlord	Operator
Capital invested / at risk	$805,000	$130,500
Year-1 revenue (EGR)	—	$629,146

Metric	Landlord	Operator
Year-1 rent	$119,543	($119,543)
Year-1 management fee	($31,457)	$31,457
Year-1 net profit	$88,085	$98,600
Return on cost / margin	10.94%	15.67%
Rent coverage (DSCR)	n/a	1.56x

The Operator's $98,600 first-year profit sits on just $130,500 of at-risk capital ($80,500 option consideration plus $50,000 working capital) — a return on invested capital above 75%, because the Landlord carries the real estate. That capital efficiency is the heart of the Operator's case.

The Purchase Option & Buyback

Metric	3-Year exercise	5-Year exercise
Landlord IRR	10.53%	12.27%
Landlord equity multiple	1.31x	1.63x
Landlord total profit over hold	$253,007	$504,937
Gross buyback price	$883,494	$940,031
Less: improvement + option credit	($97,750)	($97,750)
Net price Operator pays	$785,744	$842,281
SBA 7(a) loan (90%)	$707,170	$758,053
Operator down payment (10%)	$78,574	$84,228
Annual debt service	$75,622	$81,063
Operator cash flow as owner	$122,432	$129,053
Operator cash flow as tenant	$104,605	$110,975
Cash-flow gain from owning	+$17,827	+$18,077

Why the longer hold pays more. The Landlord's return is front-loaded on income. Over three years the buyback credits slightly exceed early appreciation, so nearly all of the $253,007 profit is the rent stream. By year five, appreciation outruns the credits, the property gain turns clearly positive, and total profit nearly doubles — which is why the 5-year IRR (12.27%) exceeds the 3-year (10.53%). There is no pressure to exit early.

Benefits at a Glance

FOR THE LANDLORD

- Fixed, 3%-escalating rent roughly 44% above conventional-rental income.
- Occupancy and operating risk transferred to the Tenant-Operator under a net commercial lease.
- High-teens levered cash-on-cash when the acquisition is financed; 10.94% unlevered yield on cost.
- A defined, appreciation-based exit through the option — no marketing, no broker sale.
- Potential lease-in-place equity from the residential-price / Care Home-income spread.

FOR THE TENANT-OPERATOR

- Control of a $629,146-revenue business and an $805,000 asset for $130,500 of at-risk capital.
- First-year net profit of $98,600 — a return on invested capital above 75% during the lease phase.
- A built-in, SBA-financed path to ownership at a partially-credited price.
- Roughly $18,000 per year of additional cash flow once the option is exercised and rent becomes debt service.
- Leasehold-improvement credit at buyback recovers a portion of the Operator-funded buildout.

Structural Notes & Design Assumptions

1. **Management fee as an economic-split device.** In this example, the 5% management fee paid by the Landlord to the Operator functions as an intentional economic-split device inside the lease — a deliberate mechanism for allocating returns between the parties, not a separate management contract.
2. **Option consideration credited at 50%.** The Operator's option amount is credited at 50% at buyback by design. The Landlord carries substantial risk on the Operator's future performance — the ability to deliver care services at a sustainable rate and to accrue, through profitable operations during the hold, the cash needed to qualify for exit financing. The partial credit compensates the Landlord for bearing that risk.
3. **Operator-funded leasehold improvements.** The Operator funds leasehold improvements during the lease term. The $115,000 improvement value reflects that buildout, which is why the initial renovation line is $0; the Operator recovers a portion through the leasehold-improvement credit at buyback.
4. **Zero-reserve rental view is intentional.** The acquisition view is shown without vacancy or repair reserves because the Tenant-Operator executes a commercial lease obligating all repairs and capital expenditures to the Tenant-Operator. Under this net structure those costs sit with the Operator, not the Landlord.
5. **Appreciation rates differ by design.** The acquisition view uses 4.0% and the leaseback view uses 3.15%. The property becomes improved for special use during the lease, which is expected to increase operational value when a full, formal, third-party commercial appraisal is ordered at exit — so the exit valuation should reflect special-use income value rather than simple residential appreciation.
6. **Private-pay rate basis.** The $5,192 per resident, per month private-pay rate was independently sourced (08/17/2026) and sits at the higher end of available residential Care Home data for the search performed.

Important Notice

This is a fictional use-case presented for illustration and discussion purposes only. It is not investment, tax, or legal advice, and projections rely on user-supplied assumptions that are not guaranteed. All property selections are subject to zoning, HOA, and licensing verification. When evaluating the special use of a specific property as a care facility, consult the local governing and regulatory bodies and obtain their instructions and preliminary responses in writing before making any decision. Consult qualified professionals.

Rental Investment DSCR Plus Analyzer

3578 Brassville Ave N, Melton, AZ 87654

DSCR, cash flow, and returns for a single rental property, plus an estimated cash-to-close statement.

Powered by Capital Success — www.capitalsuccess.us

ASSUMPTIONS

Property Address	3578 Brassville Ave N, Melton, AZ 87654
Market rent	$6,900
Current value	$805,000
Loan amount	$603,750
Interest rate	7.35%
Payment type	Fully amortized, 30yr
Origination fee	1.68%
Rate buydown cost	$0
Annual taxes / insurance / HOA	$11,000 / $4,400 / $960

KEY METRICS

DSCR	1.25x
Return on Equity (Yr 1)	6.15%
Cash-on-Cash Return (Yr 1)	5.76%
Cap Rate	7.74%
Loan-to-Value	75.00%
Equity Injection %	25.00%

MONTHLY CASH FLOW

LINE ITEM	MONTHLY	ANNUAL
Rent	$6,900	$82,800
Taxes	-$917	-$11,000
Insurance	-$367	-$4,400
HOA	-$80	-$960
Management fee	-$345	-$4,140
Vacancy	$0	$0
Repairs	$0	$0
Utilities	$0	$0
Other	$0	$0
Net Operating Income	$5,192	$62,300
Mortgage Payment	-$4,160	-$49,916
Cash Flow	$1,032	$12,384

UNDERWRITING LIQUIDITY REQUIRED

Equity injection	$201,250
Origination fee	$10,113
Estimated closing costs	$3,783
Rate buydown	$0
Capital investment (cash actually put into the deal)	$215,146
After-closing liquidity reserve needed (6 mo.)	$24,958
Total Liquidity Required	$240,104

ESTIMATED CASH TO CLOSE

Purchase amount	$805,000
Finance amount	-$603,750
Equity injection	$201,250
Escrow deposit credit	$0
Financing costs	$13,896
Seller financing concession	$0
Estimated cash to (from) buyer at closing	-$215,146
Post-closing liquidity reserve	-$24,958
Total cash needed at closing	-$240,104

APPRECIATION PROJECTION

Years to project 3

YEAR	4 % ×	4 % ×	4 % × +
Year 01	$838,542	$838,542	$838,542
Year 02	$873,481	$873,481	$873,481
Year 03	$909,876	$909,876	$909,876

NET EQUITY PROJECTION

Appreciation rate used 4.0 %

Independent of the appreciation scenarios above. Loan balance follows the Payment Type setting — flat for interest-only, paid down for fully amortized.

Yr 01	Yr 02	Yr 03
$240,523	$281,628	$324,659

Care Home Leaseback Modeler

3578 Brassville Ave N, Melton, AZ 87654

Landlord vs. Operator projections for a care home sale-leaseback deal.

Powered by Capital Success - www.capitalsuccess.us

ASSUMPTIONS

Deal Description	Brassville Modeler Test V1
Property purchase price	$805,000
Option Agreement Amount	$80,500
Renovation / remodel cost	$0
Working capital	$50,000
Beds / units	12
Occupancy (stabilized)	85.00%
Private-pay rate ($/resident/month)	$5,192
Annual escalator	3.00%
Lease rate (on total project cost)	14.85%
Mgmt fee to Operator (% of gross rev)	5.00%
Annual appreciation rate	3.15%
SBA down payment / rate / amortization	10.00% / 9.75% / 25 yrs
Improvement value (credit basis)	$115,000 — Partial (50.00% haircut)

YEAR 1 (STABILIZED) — SIDE BY SIDE

METRIC	LANDLORD	OPERATOR
Capital invested / at risk	$805,000	$130,500
Year-1 revenue (EGR)	—	$629,146
Year-1 rent	$119,543	-$119,542
Year-1 mgmt fee	-$31,457	$31,457
Year-1 net profit	$88,085	$98,600
Return on cost / margin	10.94%	15.67%
Rent coverage / DSCR (EBITDAR ÷ rent)	n/a	1.56x

OPERATOR P&L — 5 YEAR LEASE PHASE

METRIC	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Effective gross revenue	$629,146	$648,020	$667,461	$687,485	$708,109
EBITDAR (before rent)	$186,685	$192,286	$198,055	$203,996	$210,116
Rent	$119,543	$123,129	$126,823	$130,627	$134,546
Mgmt fee (from landlord)	$31,457	$32,401	$33,373	$34,374	$35,405
Operator total pre-tax profit	$98,600	$101,558	$104,605	$107,743	$110,975
Rent coverage	1.56x	1.56x	1.56x	1.56x	1.56x

3-YEAR HOLD / BUYBACK

3-YR LANDLORD IRR	10.53%
Landlord equity multiple	1.31x
Landlord total profit over hold	$253,007
Gross buyback price	$883,494
Less: improvement credit + Option Agreement Amount	-$97,750
Net buyback price (Operator pays)	$785,744
Operator down payment (SBA 7a)	$78,574
SBA 7(a) loan amount	$707,170
Annual debt service	$75,622
Operator cash flow as owner	$122,432
Operator cash flow as tenant	$104,605
Cash-flow change from owning	$17,827
Down-payment cash saved by credit	$9,775

5-YEAR HOLD / BUYBACK

5-YR LANDLORD IRR	12.27%
Landlord equity multiple	1.63x
Landlord total profit over hold	$504,937
Gross buyback price	$940,031
Less: improvement credit + Option Agreement Amount	-$97,750
Net buyback price (Operator pays)	$842,281
Operator down payment (SBA 7a)	$84,228
SBA 7(a) loan amount	$758,053
Annual debt service	$81,063
Operator cash flow as owner	$129,053
Operator cash flow as tenant	$110,975
Cash-flow change from owning	$18,077
Down-payment cash saved by credit	$9,775

OPERATOR-FUNDED PRESET (OPERATOR FUNDS THE BUILDOUT)

Note: Who funds the buildout changes what rent is charged on. If the Landlord funds it, that cost is added to the Landlord's total project cost, so rent is charged on the full amount for the entire lease. Here is the net effect on rent:

- **Landlord-funded improvements:** added to total project cost → rent is charged on the full amount for the entire lease.
- **Operator-funded improvements (this preset):** Landlord's basis stays at purchase price only → rent is lower for the entire lease.

Either way the improvement cost is recovered — just on different sides of the ledger: the Landlord recovers it through rent + buyback price; the Operator recovers it through the leasehold improvement credit at buyback.

Landlord basis (purchase price only)	$805,000
Year-1 rent (on landlord basis)	$119,543
Year-1 rent coverage	1.56x
Year-1 Operator total profit	$98,600
Year-1 landlord NOI	$88,085
3-yr landlord IRR / Operator cumulative profit	10.53% / $304,763
5-yr landlord IRR / Operator cumulative profit	12.27% / $523,482

OCCUPANCY SENSITIVITY (YEAR 1)

METRIC	85%	75%	65%	50%	95%
EGR	$629,146	$555,129	$481,111	$370,086	$703,163
EBITDAR	$186,685	$150,605	$114,524	$60,403	$222,766
Rent coverage	1.56x	1.26x	0.96x	0.51x	1.86x
Operator total profit	$98,600	$58,819	$19,037	-$40,635	$138,382
Operator margin	15.67%	10.60%	3.96%	-10.98%	19.68%
Landlord NOI	$88,085	$91,786	$95,487	$101,038	$84,384
Landlord yield on cost	10.94%	11.40%	11.86%	12.55%	10.48%
Landlord IRR (3yr)	10.53%	11.01%	11.48%	12.19%	10.06%
Landlord IRR (5yr)	12.27%	12.74%	13.22%	13.93%	11.79%

BREAK-EVEN OCCUPANCY

Rent coverage = 1.0x	66.39%
Operator total profit = $0 (includes Mgt. fee from Landlord)	60.21%