MARKET RESEARCH

When Less Drama Makes More Money

Coupon Clipper vs. Value-Add: Timing and Capital at Play

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November 2025

Everyone loves a good value-add story – buy a property, put some money in, lift rents, and boost value. On paper, it always looks great. But in reality, it doesn't always work that way. Between higher capex, longer lease-up times, and rent growth taking longer to show up, the returns can start to look very different once you factor in the time and cash it actually takes to get there. Sometimes, a newer, low-capex, "coupon clipper" with steady cash flow can quietly do just as well, or even better, once you run the math. It really comes down to two things – timing and efficiency. How quickly can you realize that rent growth? And how much value are you actually creating for every dollar of capex you spend? That's where capex efficiency and the time value of rent growth start to matter – and where a "boring" deal can end up being smarter than the one that looks more exciting on paper.

Take two properties. **Asset A** is a value-add bought for $35.5M at ~4.8% cap. It needs roughly $3M in deferred capex over the hold period – roofs, boilers, and major repairs – with about $2-3 M spent over the first four years. On top of that, around 40% of the units are below market, and each will need about $40K in renovation to bring to market standard. The rent gap is around 40%, meaning an average in-place rent of $1,600 vs. a market rent of $2,240, or about $7,680 a year. That means each renovated unit earns roughly a 19% return on that $40K spend – solid value creation, but it comes gradually as units turn and rents reset. Meanwhile, the big deferred capex is being spent in the early years with no immediate boost to NOI.

Asset B, the coupon clipper, is cleaner. It's a newer asset bought for $35.5M, needs little more than routine maintenance, and starts off with a 5.2% going-in cap. Rents just grow with guidelines. For simplicity, both assets are modeled with the same financing - 65% LTV, 3.5% rate, 40-year amortization. The difference lies in when the spread shows up. Asset B captures it immediately, while Asset A faces early cash drag from heavy capex and delayed rent growth.

Asset A[1]

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total Rent		**2,793,443**	**2,948,719**	**3,124,125**	**3,321,452**	**3,542,622**	**3,789,694**	**4,064,876**	**4,370,532**	**4,709,192**	**5,083,565**
NOI		1,704,000	1,798,718	1,905,716	2,026,086	2,160,999	2,311,714	2,479,575	2,666,024	2,872,607	3,100,975
Deferred capex		625,000	625,000	625,000	625,000	53,139	56,845	60,973	65,558	70,638	76,253
Value Add Capex		400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000	400,000
Cash flow		679,000	773,718	880,716	1,001,086	1,707,860	1,854,868	2,018,601	2,200,467	2,401,969	2,624,721
Sale Proceeds		-	-	-	-	-	-	-	-	-	52,494,424
Purchase Price	-	35,500,000	-	-	-	-	-	-	-	-	-
Total Cash flow	**-**	**34,821,000**	**773,718**	**880,716**	**1,001,086**	**1,707,860**	**1,854,868**	**2,018,601**	**2,200,467**	**2,401,969**	**55,119,145**
Cash Yield		**1.9%**	**2.2%**	**2.5%**	**2.8%**	**4.8%**	**5.2%**	**5.7%**	**6.2%**	**6.8%**	**7.4%**
Unlevered IRR		**9%**									

Asset B[1]

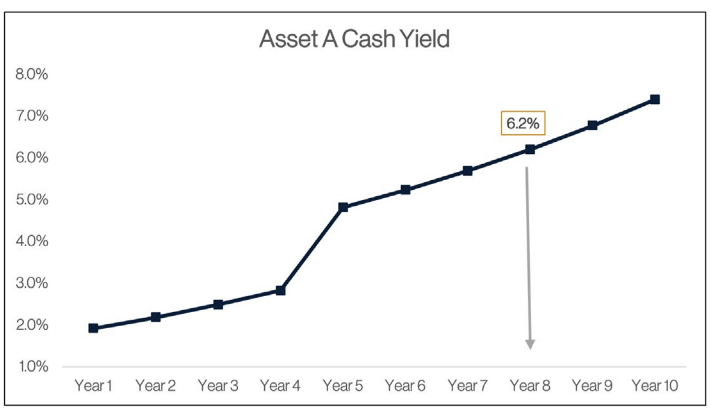
		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total Rent		**3,026,230**	**3,101,885**	**3,179,432**	**3,258,918**	**3,340,391**	**3,423,901**	**3,509,498**	**3,597,236**	**3,687,167**	**3,779,346**
NOI		1,846,000	1,892,150	1,939,454	1,987,940	2,037,639	2,088,580	2,140,794	2,194,314	2,249,172	2,305,401
Maintenance Capex		45,393	46,528	47,691	48,884	50,106	51,359	52,642	53,959	55,308	56,690
Cash flow		1,800,607	1,845,622	1,891,762	1,939,056	1,987,533	2,037,221	2,088,152	2,140,355	2,193,864	2,248,711
Sale Proceeds		-	-	-	-	-	-	-	-	-	44,974,217
Purchase Price	-	35,500,000	-	-	-	-	-	-	-	-	-
Total Cash Flow	**-**	**33,699,393**	**1,845,622**	**1,891,762**	**1,939,056**	**1,987,533**	**2,037,221**	**2,088,152**	**2,140,355**	**2,193,864**	**47,222,928**
Cash Yield		**5.1%**	**5.2%**	**5.3%**	**5.5%**	**5.6%**	**5.7%**	**5.9%**	**6.0%**	**6.2%**	**6.3%**
Unlevered IRR		**9%**									

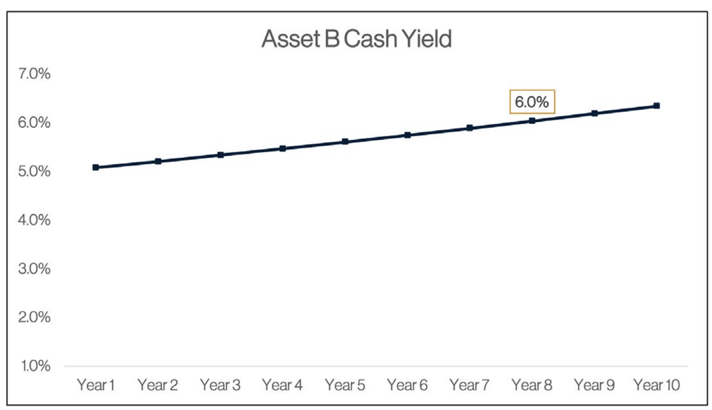
Capex efficiency tells the rest of the story. Each $40K spent on a unit in Asset A generates a strong return, but that's layered on top of the $2-3M of deferred spend just to keep the building functional. Asset B isn't giving that 19% pop per unit, but its cash flow starts from day one and compounds steadily.

Of course, all of this assumes execution goes perfectly – delayed turnover, higher-than-expected renovation costs, or slower rent growth can materially affect returns. To illustrate this, we can look at a sensitivity table showing how different scenarios impact Asset A's cash flow and IRR.

Scenario	Renovation Cost/unit	Units Turned/Year	Year 10 CF	Unlevered IRR	Avg 10 Year Cash Yield
Base	$40,000	10	$53,626,114	8.60%	4.50%
High Capex	$50,000	10	$53,193,036	7.90%	4.30%
Slow Turnover	$40,000	7	$51,660,520	8.00%	4.60%
High Capex + Slow Turnover	$50,000	7	$50,190,520	7.50%	4.40%

It's not about which asset is better – It's about the setup. Value-add works best when turnover is fast, execution is clean, and capital is deployed efficiently. But when a deal requires millions in deferred capex and the rent gap isn't wide enough to offset that spend quickly, average cash yield gets dragged down even if long-term yield looks good on paper. Meanwhile, Asset B generates steady income from day one with minimal execution risk. That's what makes cash yield, timing, and risk worth weighing carefully.





[1] The cash flow, IRR, and yield calculations shown here use simplified assumptions to illustrate the concept. Actual results can vary significantly based on factors like turnover, capex, rent growth, and market conditions. The goal is not to predict precise returns, but to provide a framework to understand the bigger picture and compare the impact of timing, capital deployment, and execution.

Now of course, as widely known, real estate is about location, location, location! And so, another way a coupon clipper can outperform a value-add is when location and market dynamics limit how quickly you can capture rent upside. Imagine a secondary-market property that looks cheap on paper – maybe rents are 45% below market. You spend $40K per unit renovating 40% of the units, but because turnover is very low, incentives are needed to attract tenants, and market rent growth is sluggish, those units stay vacant longer than expected. Even after spending the capex, the income doesn't flow as planned, and the returns suffer.

Meanwhile, a coupon clipper in a stronger, high-demand location might have almost no upside gap, but rent keeps rolling in from day one. There's minimal execution risk, no heavy upfront capex, and cash flows are predictable. Over the hold period, total cash yield can actually surpass the value-add, not because the coupon clipper has more upside, but because the value-add is tied up in slow-to-realize improvements and location-constrained rental growth.

The magic of value-add shows up when capital, timing, and execution line up – when it clicks, the upside can be huge. But the return isn't just about rent lift on paper. It's about how much capital goes in, when it goes in, and how fast it starts earning. In this case, the large chunk of upfront deferred capex paired with only a moderate gap to market rents makes the math tighter. In other deals, with a wider gap, lower upfront spend, stronger location tailwinds, or just very cheap financing, the payoff can be very strong. But here, the combination of capital intensity and timing means execution has to be close to perfect to hit the expected returns. That's why looking at when the dollars work is just as important as looking at how much they earn.

At the end of the day, it all comes down to capital – both the debt you raise and the dollars you invest. Value-add strategies can generate significant wealth, but only if upgrades translate into real income and the location supports turnover. Coupon clippers may not deliver dramatic jumps, but they put every dollar to work immediately, producing steady, reliable cash. In the end, it's the smart deployment of every dollar – and when it starts earning – that truly drives success.

About Peakhill

Peakhill Capital is an asset manager and full-service direct lender across the full capital stack on all asset types across Canada. Peakhill is one of the most active CMHC-Insured lenders for multi-unit residential term, construction and affordable programs, closing over $16B in financings throughout North America since inception with a team of over 100 professionals.

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