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INVESTMENT, & OPERATIONS GUIDE™

QUICKLY UNDERSTANDING THE CAPITAL-STACK FRAMEWORK

GUIDES DESIGNED TO HELP YOU EXCEL AT ACQUIRING AND OPERATING REAL ESTATE INVESTMENTS

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REAL STATE INVESTING IN OPERATIONS GUIDES

Quickly Understanding The Capital-Stack Framework

The capital stack process is the method by which investors and lenders provide financing for a multifamily investment. It involves layering different types of financing to create a "stack" of capital that covers the total cost of the investment. Here are the steps involved in the capital stack process:

- ☑ Equity: Equity is the portion of the investment that is funded by the investor's own money. This can include cash, stocks, or other assets. Equity is typically the smallest portion of the capital stack, but it is essential for securing debt financing.
- ☑ Senior debt: Senior debt is the portion of the investment that is funded by a traditional bank loan or other debt financing. This type of financing is secured by the property and has priority over other types of financing in the event of default. Senior debt typically has the lowest interest rates, but also requires the highest level of collateral.
- ☑ Mezzanine debt: Mezzanine debt is a type of financing that sits between equity and senior debt in the capital stack. It is typically used to bridge the gap between the amount of senior debt that can be secured and the total cost of the investment. Mezzanine debt typically has higher interest rates than senior debt, but lower than equity.
- ☑ Preferred equity: Preferred equity is a type of financing that provides the investor with priority over common equity in the event of default. Preferred equity typically has higher interest rates than common equity, but lower than mezzanine debt.
- ☑ Common equity: Common equity is the portion of the investment that is funded by the investor's own money after senior debt, mezzanine debt, and preferred equity have been secured. Common equity typically has the highest risk, but also the highest potential return.

Example

An investor is interested in purchasing a 50-unit multifamily property for $7 million. The investor plans to fund the purchase with a capital stack consisting of $1 million in equity, $4 million in senior debt with an interest rate of 4%, $1 million in mezzanine debt with an interest rate of 8%, and $1 million in common equity. The investor secures the senior debt through a traditional bank loan, and the mezzanine debt through a private lender. The total interest cost of the capital stack is $360,000 per year ($160,000 for senior debt and $200,000 for mezzanine debt), which is covered by the property's rental income.

The capital stack process is essential for securing financing for a multifamily investment. By layering different types of financing, investors can create a well-balanced capital structure that covers the total cost of the investment. At Buy it Rent it Profit Education™, we offer resources and courses to help investors navigate the capital stack process and achieve success in the multifamily real estate market. By utilizing our tools and resources, investors can make informed investment decisions and achieve their investment goals.