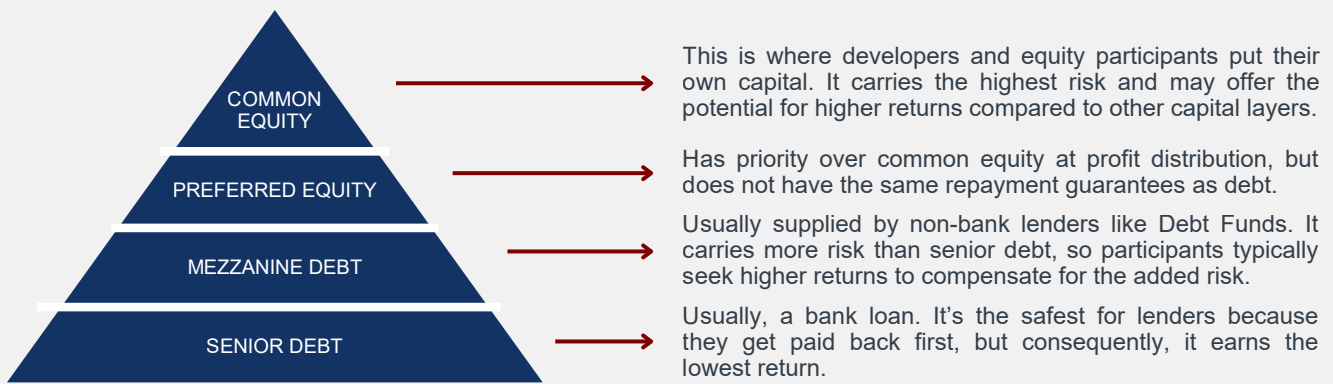


# The Capital Stack

## What is a capital stack?

The structure of all the different sources of capital used to finance a real estate project. It's typically organized by risk and return, starting with the safest, lowest-return capital at the bottom and moving up to the riskiest, highest-return capital at the top.

The capital stack comprises several layers, which include senior debt, mezzanine debt, preferred equity, and common equity. Each layer carries its own expectations for return, level of involvement, and position in the investment hierarchy.



The capital stack is a roadmap for how commercial real estate deals function from start to finish. The structure determines:



Who has control or voting rights



How cash flows are distributed



Who gets paid in what order



Who absorbs losses



What the potential return looks like

The alignment of interests within the structure can influence how a project performs, although outcomes vary. When the structure is misaligned or overly aggressive, a project may face unnecessary risk or become over-leveraged.

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