

## What Is Preferred Equity?

Preferred Equity in commercial real estate refers to a type of investment that falls between Common Equity and debt in the capital stack of a real estate project. Preferred Equity represents a form of financing that typically provides certain advantages to investors compared to Common Equity holders.

### Preferred Equity

- Fixed Returns
- Shorter Hold Period
- Distribution Priority

### Shared Benefits

- Yield-Driven
- Limited Liability
- Hard Asset/Inflation Hedge

### Common Equity

- Projected Higher Returns
- Longer Hold Period
- Distributions Paid Last

## How Is Preferred Equity Used In Real Estate?

Preferred Equity is often used in real estate projects to bridge the gap between equity and debt financing. It can be attractive to investors who want some degree of ownership while seeking more predictable returns and protection in case the project encounters financial difficulties.

## Why Invest In Preferred Equity?

Preferred Equity is a compelling investment option due to its array of benefits. Notably, it offers reliable distributions, ensuring a stable cash flow for investors seeking consistent returns compared to Common Equity. Its position in the capital stack provides a safeguard for initial investments, granting Preferred Equity holders priority distributions to Common Equity, which becomes especially attractive during periods of financial uncertainty. This unique combination of steady cash flow and capital preservation solidifies Preferred Equity as an attractive option for investors seeking to diversify their portfolio.

## Preferred Equity Features & Benefits



**Immediate Cash Flow** Preferred Equity often provides an immediate and predictable cash flow stream in the form of regular distribution payments. Investors seeking reliable cash flow may find this attractive, especially when compared to the potentially fluctuating returns of Common Equity.



**Higher Priority In Capital Stack** Preferred Equity ranks higher in the capital structure and is entitled to receive distributions before Common Equity holders. In financial distress or liquidation, Preferred Equity investors are far more likely to recover their initial investment.



**Short-Term Investment** Investors often seek diversification in their portfolios to reduce their exposure. Preferred Equity investments can diversify a real estate investment portfolio, as they offer a different return profile and hold term than Common Equity.



**Opportunistic Timing** In today's current market conditions, Preferred Equity can match and often exceed the returns achieved by Common Equity. The real estate landscape opened an opportunity that hasn't been available in over 10 years, providing a flight to safety for investors with double-digit returns.

