

How Multifamily Owners Can Harness the Power of Non-Dilutive Equity

Free money is always good—but it's rarely easy to find.

For years, property owners enjoyed a very low-interest rate environment that allowed them abundant access to cheap capital. Those glory days ended in 2022 when interest rates began to rise dramatically. Now, investors have hit the pause button on funding new acquisitions, construction opportunities and even property improvements.

But there's more than one way for multifamily property owners and developers to build their capital stacks. For example, non-dilutive equity, a strategy which provides multifamily owners a way to access capital without forfeiting ownership or control of their real estate assets, is rapidly becoming the most popular way to fill the investment void in this higher-for-longer environment.

What is Non-Dilutive Equity?

As the name suggests, non-dilutive equity is an equity investment that doesn't dilute the capital stack. In other words, an investor can receive equity capital without trading an ownership stake in the property or any other control in managing the asset.

In the start-up world, non-dilutive equity stands in contrast to venture capital investments, in which owners must trade shares of the company in exchange for funding. In real estate, however, non-dilutive equity often refers to grant money and tax credits. With these forms of equity capital, owners can receive funding dollars in exchange for installing specific property improvements or features, like incorporating affordable units, sustainable materials, or building near transit.

That said, tax credits and grant money can be difficult to access, as they often require extensive navigation through complex application processes. Owners not only need to know how to apply for the credit and meet the requirements for approval, but also what tax credits are available to them, which can vary depending on the location of the property. When owners can figure out the system, they can tap into a lot of value and funding opportunities, but there are a lot of hurdles to cross on the path to funding.

Creative Opportunities in Non-Dilutive Capital

While tax credits and grants are one way access non-dilutive equity, partnering with an energy infrastructure and capital company like PearlX can provide the same benefits plus add a source of stable monthly income for multifamily owners and developers. This kind of partnership comes with a significant capital infusion that covers the cost of installation and ongoing maintenance and upkeep of solar and battery infrastructure, thereby boosting the value of the asset. Additionally, PearlX enters a long-term triple-net leasing deal with the property owner, which means the owner will be able to count on monthly revenue coming in for life of the partnership.

By taking advantage of this kind of non-dilutive equity, multifamily owners can gain both physical property improvements and funding without sacrificing any control or ownership over the property itself.

The Right Partnership Provides Bigger Benefits

A non-dilutive equity investment is always a win for a multifamily owner or developer – after all, who doesn't like free money? But taking it a step further by forging a partnership with an energy capital and infrastructure company like PearlX can provide owners with more than just free money – it can also help them to meet stringent regulatory standards.

In California, for example, owners and developers alike are feeling the crunch to decarbonize new and existing multifamily properties. California's latest updates to Title 24 require solar energy infrastructure be installed on all new residential developments, and the state's legislature is continuing to look at new regulations that would require existing properties to meet these standards as well.

By partnering with PearlX, multifamily owners and developers can meet these requirements without wasting any of their own time, money or talent. Additionally, a variety of studies have shown that properties with sustainable features have better occupancy, lower tenant attrition and higher rents than properties without sustainable features, so providing multifamily tenants with access to lower-cost, clean energy is a win from multiple angles. In addition to giving back to the multifamily owners and tenants, PearlX is also able to give back to the local community by selling the energy generated by the solar panels to local energy companies, thereby reducing the amount of carbonated energy at use in these areas.

The tight capital environment is among the biggest obstacles for real estate developers and owners today. Non-dilutive equity is an excellent opportunity to tap into a free capital source, and give owners back capital options to take action, even in a challenging market.