

# How Private Credit Built and Sustains the Cannabis Industry

## Private Credit Emerges as the Financial Bedrock of the U.S. Cannabis Industry

In a financial environment where traditional banking institutions are largely absent, private credit has stepped up to become the central pillar supporting the U.S. marijuana industry. What began as a workaround in a federally restricted market has evolved into a fully developed financing system that underpins every major area of the cannabis economy—from cultivation and retail expansion to infrastructure development.

Private lenders have not only filled a financial gap; they have established the very foundation upon which the modern cannabis sector has been built.

### Billions Deployed by Leading Private Credit Firms as Cannabis Scales Up

Over the past seven years, as cannabis companies began seeking institutional capital, private credit firms such as AFC Gamma, Chicago Atlantic, Innovative Industrial Properties (IIP), and NewLake Capital Partners have collectively deployed billions of dollars into the industry.

San Diego-based IIP alone has invested more than \$2 billion in cannabis-related real estate, while Illinois-headquartered Chicago Atlantic has committed over \$1 billion. Connecticut-based NewLake Capital has contributed upwards of \$425 million. These figures highlight not just the scale of private credit involvement but also its crucial role in funding the operational infrastructure of an industry still locked out of federally regulated financial systems.

Without this type of financing, the cannabis sector would likely have remained fragmented and underdeveloped, unable to scale in line with rising consumer demand and expanding legalization.

### Private Credit: A Necessary Innovation Born From Legal Restrictions

The origins of private credit in the cannabis industry are deeply rooted in legal necessity. Because marijuana remains classified as a Schedule 1 substance under U.S. federal law, banks that are federally chartered cannot legally serve cannabis businesses. This prohibition includes access to loans, credit lines, and even basic financial services.

In response, cannabis entrepreneurs turned to alternative finance options. Private lenders were quick to recognize the market potential and stepped in to structure high-yield loans, sale-leaseback agreements, and other financial products that would work within the legal constraints. These lenders brought not only capital but also credibility and structure to a high-risk, rapidly growing sector.

## **Tailored Lending Instruments Provide Stability in a Volatile Sector**

Cannabis operators are uniquely dependent on flexible and creative financing solutions. Traditional lending models often fail to address the regulatory and operational challenges of a cannabis business. In contrast, private credit firms developed tailored instruments such as asset-backed loans and long-term lease agreements that allowed businesses to secure needed capital without sacrificing control or liquidity.

These lending structures were critical in enabling cannabis companies to acquire cultivation licenses, build out dispensary networks, and meet the intense compliance requirements of individual state markets.

## **The Shift Toward Disciplined, Sustainable Lending Reflects Market Maturity**

The cannabis lending landscape today looks markedly different from what it was five years ago. In earlier phases, private credit firms focused heavily on rapid expansion and aggressive growth. But as the industry has matured, so too has the approach to financing.

Now, deal structures are increasingly focused on long-term sustainability, operational profitability, and disciplined underwriting. Investors are less inclined to chase explosive short-term growth and are instead looking for responsible operators with proven business models. This is not a sign of contraction but rather a clear indication that cannabis is evolving into a more stable, institutional-grade industry.

## **Potential Federal Reform Could Reshape Lending but Will Take Time**

Momentum is building in Washington toward the potential reclassification of marijuana from a Schedule 1 to a Schedule 3 controlled substance. Such a move could significantly reduce tax burdens for cannabis operators and may open the door to more traditional forms of financing.

However, any such shift will be slow to materialize, and even if federal reform occurs, private credit will remain a dominant force for the foreseeable future. Banks have little experience navigating the regulatory maze of cannabis, and few are prepared to underwrite loans in a sector with such complex legal considerations.

The deep institutional knowledge that private credit lenders have accumulated over the past decade will not be easily replicated.

## **As Interest in Private Credit Surges, Cannabis Stands as a Case Study**

Outside of cannabis, private credit is gaining popularity across multiple sectors as investors seek higher returns in a rising interest rate environment. Yet in the cannabis space, private credit isn't a trend—it's the foundational financial model.

From 2019 to 2024, U.S. cannabis sales grew from \$12 billion to \$30 billion. That growth would not have been possible without the private credit firms willing to fund business expansion, inventory scaling, and infrastructure development. These investments filled the gap left by banks and venture capital firms unwilling or unable to engage with a federally prohibited industry.

As a result, cannabis now serves as a compelling example of how private credit can support innovation and expansion in highly regulated markets.

## **The Future of Cannabis Lending: Competitive, Sophisticated, and Gradual**

If marijuana is eventually rescheduled or federally legalized, new forms of financing will slowly enter the market. Traditional banks may begin to offer loans and credit lines, and interest rates may stabilize. However, that transition will not be immediate.

Private credit providers that have already established strong relationships and deep regulatory expertise will retain their edge. Those who understand cannabis licensing, compliance frameworks, and state-by-state nuances will be the ones best positioned to lead the next phase of growth.

As market competition increases and yields compress, only the most sophisticated lenders—those equipped to balance risk with operational realities will thrive.

## **Private Credit Remains the Engine Driving Cannabis Into Its Next Chapter**

Despite the uncertain regulatory future, one fact remains clear: private credit is still the financial engine propelling the cannabis industry forward. With operators focusing less on hype and more on fundamentals, lenders are playing an increasingly strategic role in shaping business priorities and financial outcomes.

As the rest of the financial world catches up to the value of private credit, cannabis continues to serve as a live case study in its effectiveness, resilience, and adaptability.

The sector's next phase will be marked by tighter deal structures, smarter capital allocation, and a broader recognition of cannabis as a legitimate, maturing industry. But at its core, the story remains the same this is an industry built on the back of entrepreneurial private credit.

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