

How Private Credit Powers Growth in the Cannabis Industry

The Cannabis Industry's Capital Problem

Despite its explosive growth and mainstream adoption, the cannabis industry still struggles with a fundamental challenge: access to capital. Due to federal illegality in the United States and ongoing regulatory uncertainty worldwide, most traditional banks and institutional investors are unwilling to finance cannabis businesses. This vacuum in capital access has left many companies—from cultivators and manufacturers to retailers and ancillary service providers scrambling for reliable funding sources.

Enter private credit: a flexible, fast-growing sector of the financial world that is quietly becoming the backbone of cannabis industry expansion.

Private credit refers to non-bank lending, typically provided by private funds, family offices, or specialized lenders. In the cannabis sector, private credit has become not just a temporary fix, but a long-term financing solution that enables operational growth, acquisitions, real estate development, and working capital support.

Why Traditional Financing Isn't an Option

Cannabis remains a Schedule I drug under U.S. federal law, which classifies it alongside substances like heroin and LSD. This classification makes it extremely difficult for cannabis companies to work with federally chartered banks or access traditional lending markets. Public market volatility and limited equity appetite post-2021 have only compounded the problem.

Even state-legal operators with strong financials are often unable to secure lines of credit, business loans, or mortgages from banks. As a result, cannabis businesses face a capital drought that restricts their ability to scale—unless they tap into alternative sources.

That's where private credit steps in.

What Is Private Credit?

Private credit involves direct lending by non-bank entities. These loans can take many forms, including:

- **Term loans**
- **Bridge loans**
- **Asset-backed loans**
- **Real estate financing**
- **Sale-leaseback agreements**

Unlike public debt markets, private credit is negotiated directly between borrower and lender, allowing for more flexible deal structures. Interest rates are generally higher than bank loans due to the perceived risk, but the access, speed, and customization often outweigh the cost for cannabis operators.

Why Cannabis Operators Choose Private Credit

1. Speed and Flexibility

In an industry where timing is everything—whether securing a license, closing a real estate deal, or funding a harvest cycle—traditional financing simply moves too slowly. Private credit lenders can close deals in weeks instead of months, and they're willing to tailor terms around the unique needs of cannabis operators.

2. Asset-Based Lending

Many cannabis companies have valuable assets: real estate, cultivation equipment, intellectual property, inventory. Private credit lenders frequently offer asset-based loans that allow companies to borrow against these holdings, preserving equity and improving cash flow.

3. Working Capital Support

Cannabis businesses, especially in early-stage or expansion mode, often burn cash before reaching profitability. Private credit provides the working capital needed to fund payroll, build infrastructure, and manage the long receivables cycles from distributors and retailers.

4. Less Dilution

Equity raises in cannabis can be painful. Public and private valuations have dropped in recent years, and founders are often reluctant to give up large portions of their company for funding. Private credit offers an alternative: growth capital without significant equity dilution.

Examples of Private Credit in Action

1. Sale-Leasebacks Fuel Real Estate Growth

Many cannabis operators own valuable cultivation or retail real estate. In a sale-leaseback, they sell the property to a private investor or REIT and then lease it back long-term. This allows them to unlock capital tied up in real estate and reinvest it in operations.

Chicago Atlantic Real Estate Finance and Innovative Industrial Properties (IIPR) are two prominent players using this model in cannabis. Their deals often range from \$5 million to over \$100 million, giving cannabis companies cash without giving up control.

2. Expansion Financing

Multistate operators (MSOs) expanding into new markets often require millions to build facilities, acquire licenses, or purchase competitors. Private credit has financed several such moves, allowing MSOs to enter emerging markets without waiting on slow capital markets.

3. Turnaround Capital

Some distressed cannabis companies have turned to private lenders for rescue financing, using collateral-backed loans to stabilize operations, restructure debt, or avoid insolvency.

Risks and Considerations

While private credit is a lifeline for many cannabis businesses, it is not without drawbacks:

- **High Interest Rates:** Due to industry risk and lack of traditional underwriting, private credit often comes with double-digit interest rates (10%–20%+), plus fees or warrants.
- **Collateral Requirements:** Lenders often require strong collateral—real estate, licenses, or equipment—which not every operator has available.
- **Loan Covenants:** Some lenders impose strict operational covenants or control rights, which can be restrictive to entrepreneurs.
- **Market Timing:** If cannabis becomes federally legal and banks enter the market, interest rates for lending will drop, potentially leaving existing borrowers with expensive legacy debt.

Still, for many businesses, the upside—speed, access, and preservation of ownership—far outweighs these risks.

The Rise of Cannabis-Focused Private Credit Firms

Recognizing the need and opportunity, a growing number of private credit firms have launched with a cannabis-specific mandate. These firms combine deep industry knowledge with structured finance expertise, creating tailored lending solutions that banks can't offer.

Examples include:

- **Pelorus Equity Group**
- **Chicago Atlantic Group**
- **Bespoke Financial**
- **Silver Spike Capital**

These lenders are filling a critical gap—and making strong returns while doing so.

A Long-Term Role in Cannabis Finance

Private credit isn't just a stopgap measure; it's becoming a permanent part of the cannabis capital stack.

Even in a post-legalization world, banks will be slow to adopt cannabis lending, and their underwriting criteria may exclude many smaller or minority-owned businesses. Private credit will continue to offer a fast, flexible solution for operators at all stages.

Furthermore, as cannabis companies mature and financial markets evolve, private credit will likely shift toward more institutional, structured lending—mirroring trends in tech and real estate.

Private Credit Is Fueling the Industry's Future

From dispensaries in Detroit to cultivators in California, cannabis companies rely on private credit to fund their growth, weather storms, and seize new opportunities. With limited access to banks and equity markets, private lenders have become the unsung financial architects of the modern cannabis economy.

For founders, investors, and executives, understanding the dynamics of private credit is now essential not just to survive, but to thrive in the fast-changing cannabis landscape.

As the industry continues to grow, so too will the role of private credit. It's not just a financing option, it's a foundational pillar of cannabis success.

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