Cannabis Issues in Real Estate
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IOPC Case Study: Marijuana’s Impact on CRE

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History of Legalization in Colorado

2000: Medical Marijuana Legalized in Minimal Amounts
    - Patient Card Required to Consume and/or Grow

2009: Colorado Medical Marijuana Code
    - Dispensaries
    - Cultivation Facilities
    - Infused Product Manufacturers (edibles, lotions, oils)
    - Local Municipalities allowed to ban and/or place moratoriums

2012: Amendment 64 – Legalization of Marijuana for Recreational Use
Denver Metro’s Industrial Market

Overall Denver Market
- 225-230 Million Square Feet
- Current Vacancy: 4.5% - 5.0% (Historic Lows)
- Average Lease Rates: $5.00 - $7.00/SF/YR (Historic Highs)

Marijuana Market
- 3.5 – 4.0 Million Square Feet
- Average Lease Rates: $15.00 - $30.00/SF/YR
Marijuana’s Impact on the Market

Leasing Activity by Industry

- Transportation/Distribution/Logistics: 30.3%
- Food & Beverage MFG: 9.3%
- Wholesale Distribution: 8.9%
- Building Materials & Construction MFG: 8.1%
- Paper/Pulp, Life Sciences, Energy and Metals MFG: 8.0%
- E-Commerce Related Distribution: 6.8%
- Machinery, Automation, & Appliances MFG: 4.7%
- Motor Vehicles Parts & MFG: 4.4%
- Warehouse/Storage: 4.3%
- High Technology MFG: 2.8%
- Materials MFG: 2.5%
- Other: 10.1%

< 1% of Activity
Why So HIGH?!?

Space Available for Marijuana Tenants:

- **200 Million SF** (85-90% Have Traditional Debt)
  - 30 Million SF
- **20 Million SF** (60-75% Owners Have a Moral/Ethical/Legal Issue)
  - 10 Million SF
- **9 Million SF** (95-96% Occupancy in Class B/C Space)
  - < 1 Million SF Available for Marijuana Tenants

Leaves Only 0.43% of the Market!
Marijuana Landlord Issues

- No Traditional Debt Available (Hard Money?)
- Properties are Subject to Federal Forfeiture
- LL is Aiding and Abetting a Federal Crime
- LL is Money Laundering
- Lack of Banking (for Tenants and Landlords)
- Insurance Premiums are Sky HIGH!
- Stigma and Odor Complaints from Other Tenants
Marijuana Economics

Average Lease Rates: $15.00 - $30.00/SF/YR
Landlord Paid TI’s: $0.00 - $15.00/SF
Tenant Paid TI’s: $60.00 - $135/SF
Lease Type: Pure NNN (taxes, insurance, utilities, roof, structure, etc.)
Property Insurance: $0.35/SF (triple that of traditional tenants)
Power: 1,000 Amps at 480v per 10,000 SF (3-5x traditional tenants)
Average Utility Bill: $1.33/SF **PER MONTH** ($15/SF/YR)
Case Study: 4990 Oakland St.

Building Size: 27,922 SF (Former Bakery)
Acquired: September 2013
Purchase Price: $1,950,000
Lease Rate: $15.04/SF NNN ($420,000/Year!)
Purchase Option: $2,350,000
Sold: October 2014
Total Return: 43% Cash-on-Cash (and IRR)
Limited Investors: 31% Cash-on-Cash (and IRR)
Case Study: 4800 Nome St.

Building Size: 38,194 SF
Acquired: February 2014
Lease Start: May 2014
Purchase Price: $2,300,000 - $60.22/SF
Lease Rate: $28.34/SF NNN
LL Paid TI’s: $750,000 ($19.64/SF)
Tenant Paid TI’s: $2,000,000 ($52.36/SF)
Term: 10 Years, Two 1-Year Options
Project Returns: 34% Cash-on-Cash
IRR’s: ???
Is it here to stay?
Will it increase?
More than half the US population now has some form of legal cannabis available.
In 2013 in the United States of America, possession of 1 ounce of marijuana is:

- Legal for Adults & for Medical Use
- Allowed for Medical Use & Doctor
- Allowed for Medical Use Only
- Civil Infraction (Doctor)
- Criminal Act

A peak of marijuana possession ranges from 6.8 grams in 4 states to 1 ounce in 17 states.
Real Estate Opportunities in Cannabis:
  ◦ Dispensaries;
  ◦ Processors;
  ◦ Cultivation Sites.
Inside a cultivation facility
Local Zoning!!!!

Local zoning is key to every Cannabis real estate opportunity.

Know the sensibilities of the area.

Watch out for traps.
Risks to Landlords:

- Stigma;
- Forfeiture;
- Foreclosure;
- Collectability
Strategies for Landlords

- Addressing federal illegality through drafting;
- Escape clauses for both sides;
- Fighting forfeiture.
CONCLUSION

- Cannabis is here to stay and rapidly expanding over the coming years.
- Both opportunities and challenges remain for the real estate industry.
- Legalization of “adult use” cannabis is coming, including Arizona in 2016. Get ready.