

Lessons from the Land of Pot



Rocky Mountain Land Use Institute
University of Denver Sturm School of Law
March 9, 2018

Lessons from the Land of Pot

The Panel

Kyle Dalton, Principal Planner, Denver



Noah Beals, Senior City Planner, Fort Collins



Bronwyn Scurlock, Assistant City Attorney, Fort Collins



Don Elliott, Director, Clarion Associates



Lessons from the Land of Pot

A Short History of Pot

- 2001: CO legalized medical marijuana
- 2012: CO legalized recreation (retail) marijuana
- Through Constitutional amendments that:
 - Are unlikely to be reversed
 - Allow local governments wide latitude to craft local ordinances regulating related activities (or to prohibit them)
- After 17 years, we should have learned something about the land use impacts of legalization



Lessons from the Land of Pot

What is this session IS NOT about

- Whether Amendments 20 and 64 were good ideas
- Impacts on drug use/abuse rates
- Impacts on tax revenues
- Impacts on traffic safety/accident rates

What is this session IS about

- Lessons for planners and land use regulators
- Impacts on the real estate markets that impact planners and land use regulators



Lessons from the Land of Pot

Four Flavors of Pot

1. Cultivation Facility
("Grow Operation")
2. Product Manufacturing Facility
3. Testing Facility
4. Retail Sales Facility



Lessons from the Land of Pot

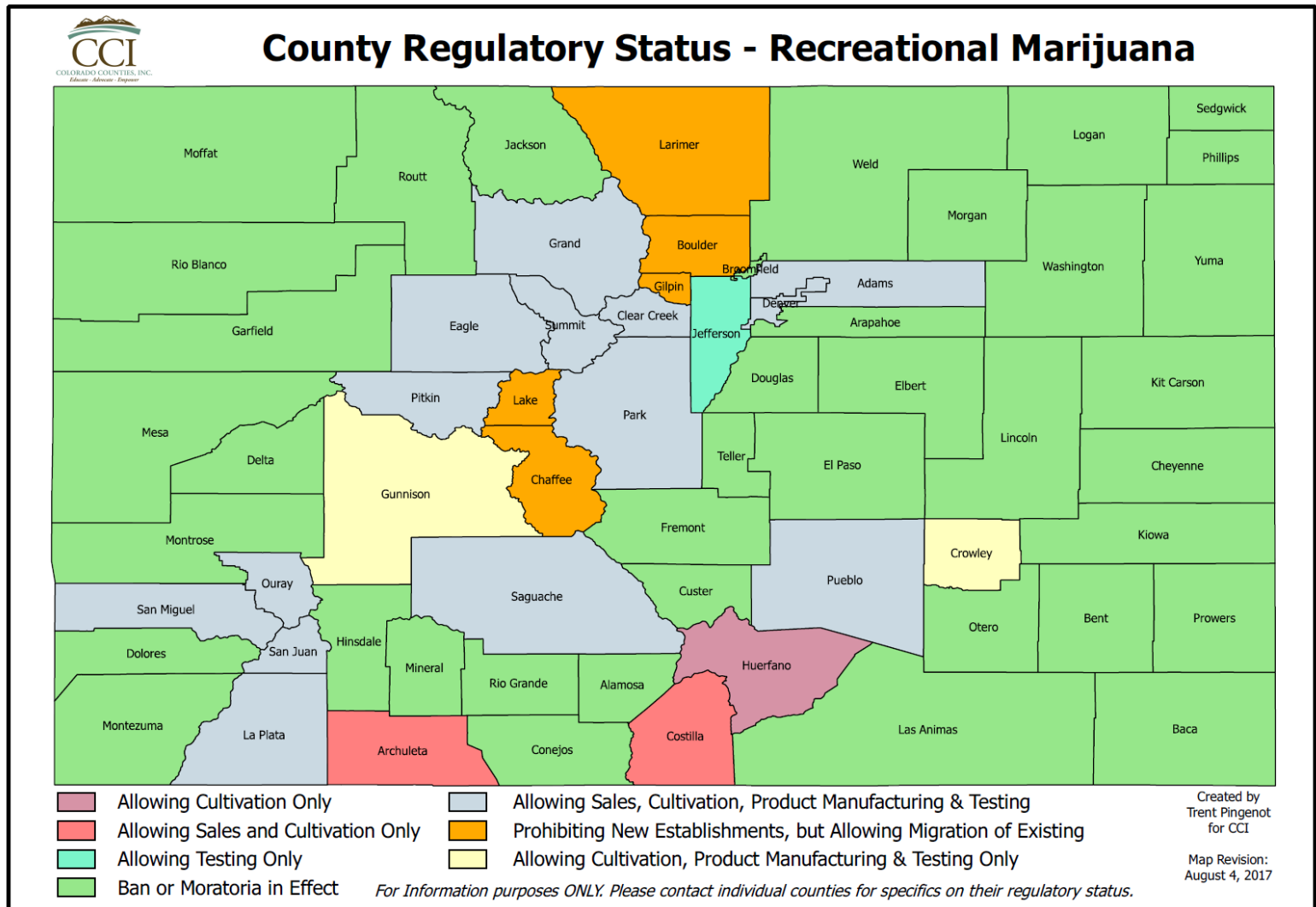
Denver's Approach

Kyle Dalton

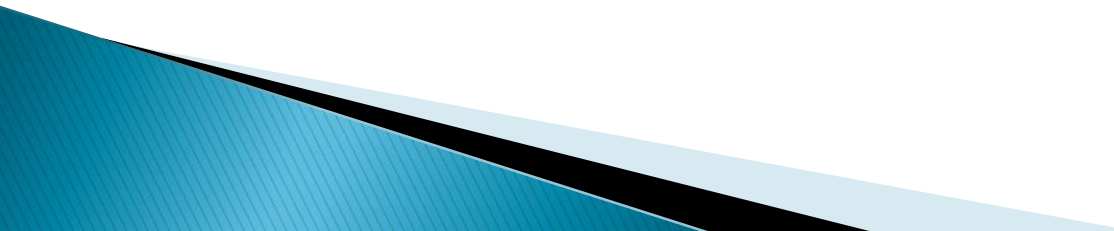


Lessons from the Land of Pot

A Map of Pot

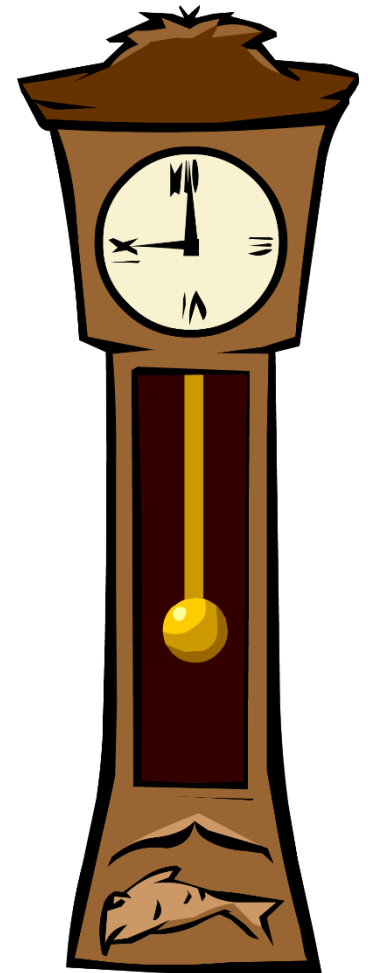


Denver's Approach

- ▶ Denver uses licensing laws as the primary regulatory tool for MJ businesses
 - ▶ Conscious decision not to create distinct land uses just for MJ businesses in the zoning code
 - ▶ MJ businesses are regulated within the city's business licensing laws, which in turn cross-reference zoning land uses and zone districts to specify allowed locations
- 

Timing is Everything

- ▶ 2010–11: Denver decided to “grandfather” business locations that existed before city’s permanent MJ licensing regulations were enacted
 - 10 year gap before formal regulation by state or city after Amendment 20’s passage legalizing medical marijuana
- ▶ Coincidentally nearly 80% of the city was rezoned in 2010, creating “nonconformities” too



Agricultural Loopholes

- ▶ Distinction between growing MJ and growing tomatoes?
- ▶ Zoning permits issued for “plant husbandry” or “urban farm” never mentioned MJ
- ▶ Now, primary grows must be plant husbandry and all grows must be located in enclosed structures



Gaps: Collectives & Caregivers

- ▶ Criminalized growing of more than 36 plants on a single zone lot in a non-licensed facility



Design

- ▶ Street level activation of dispensaries
- ▶ Electrical services in accessory buildings



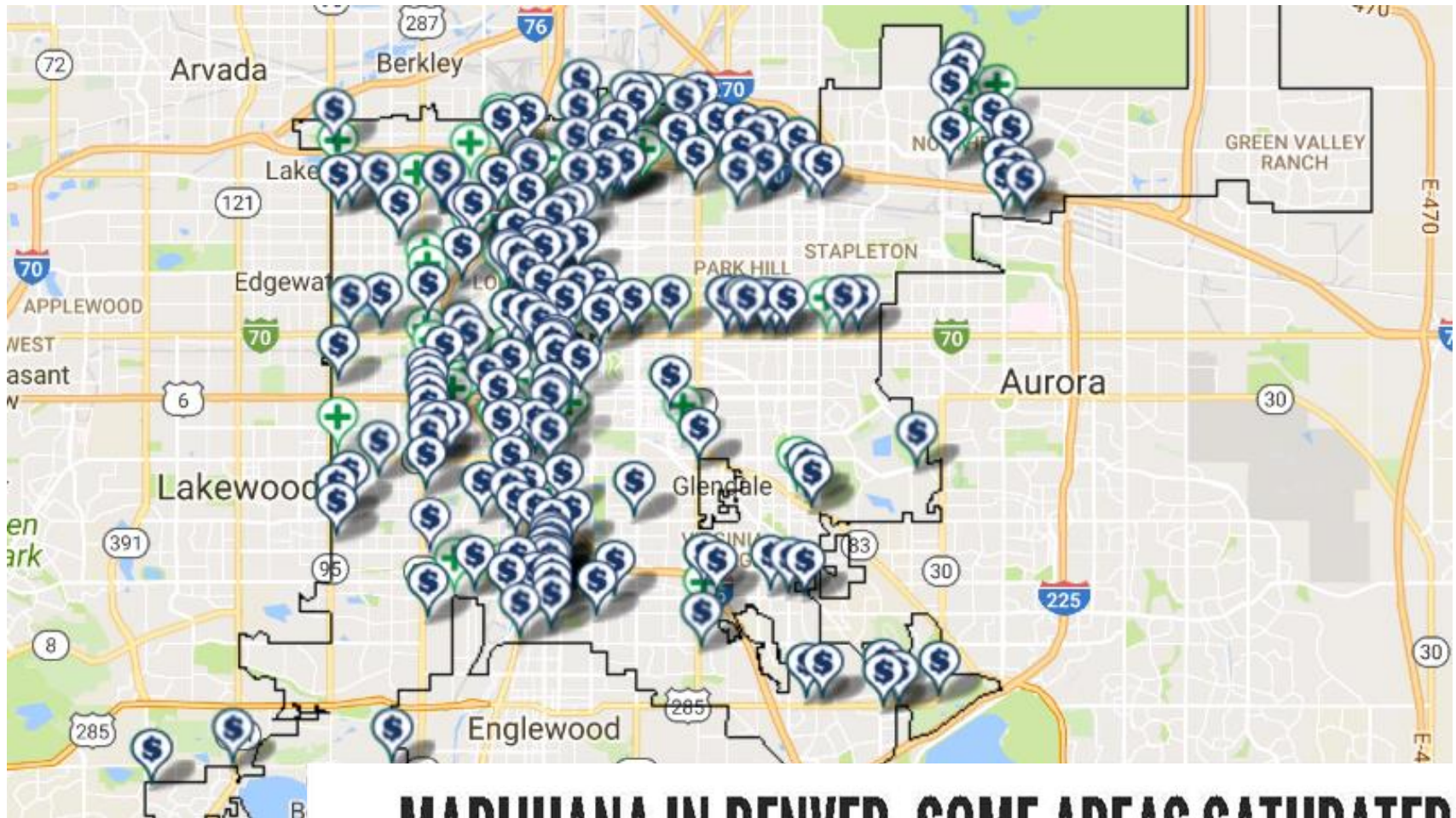
Extractions

- ▶ Food-Based
- ▶ Water-Based
- ▶ Solvent-Based



- ▶ Manufacturing:
 - Custom
 - General
 - Heavy
- ▶ Commercial Food Prep & Sales

Proliferation ...



MARIJUANA IN DENVER: SOME AREAS SATURATED

... led to Caps

Unbalanced pot landscape in Denver raises concerns

After two years of retail marijuana sales, Denver communities of color and lower income say they bear disproportionate number of pot licensees

POLITICS > DENVER POLITICS

Marijuana business caps could help neighborhoods, council members say

Other Use Types Gain New Life

- ▶ Laboratory, Research, Development, and Technological Services
- ▶ Terminal, Freight, Air Courier Services



Social Consumption



- ▶ No separate zoning permitting

Coffee shop is set to be Denver's first social-use marijuana business

AP Associated Press
February 27, 2018 / 8:36 am / Denver news

Share this:



Thomas Peipert, The Associated Press

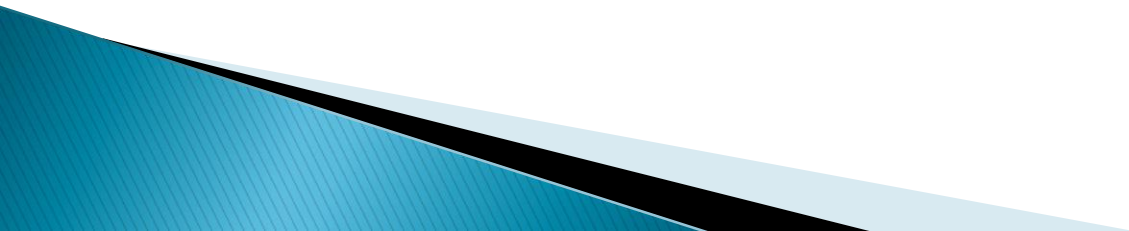


The Coffee Joint next to I-25 in Lincoln Park, Feb. 6, 2018. (Kevin J. Beaty/Denverite)

Lessons from the Land of Pot

Fort Collins' Approach

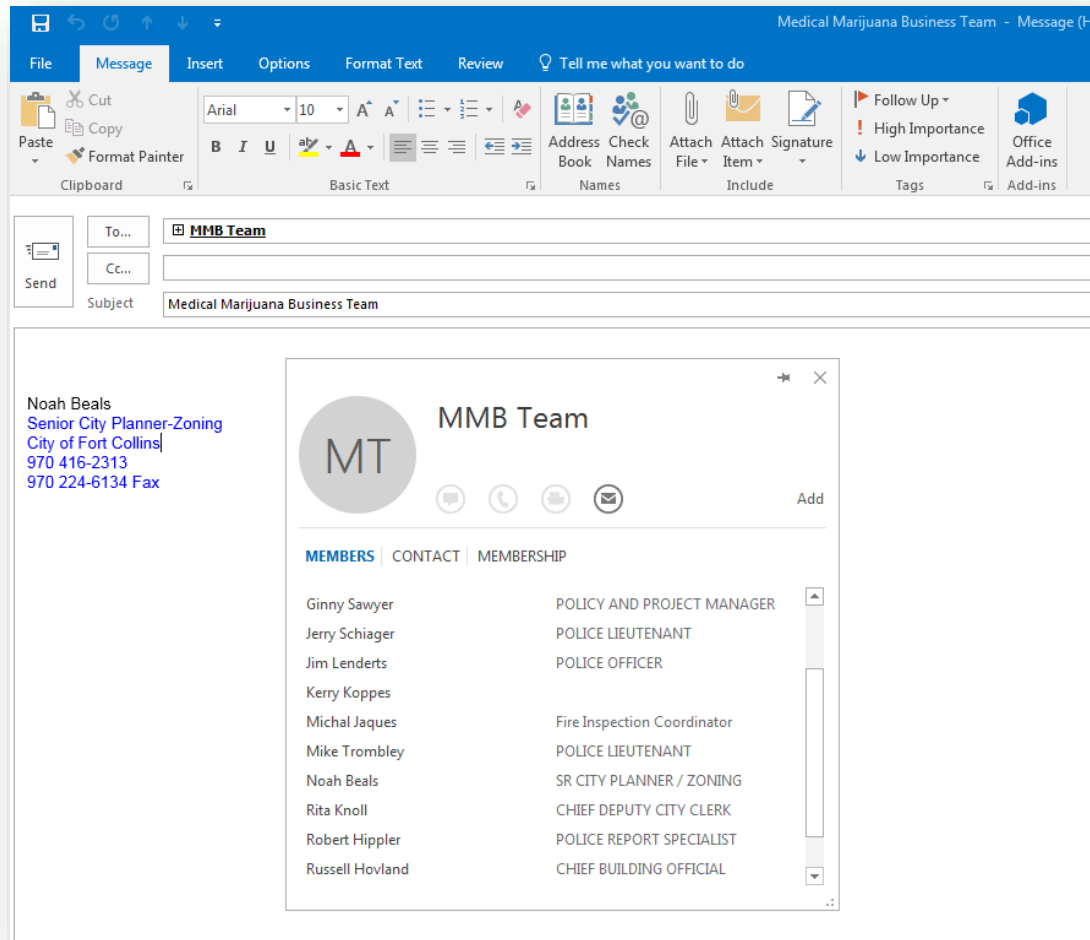
Noah Beals



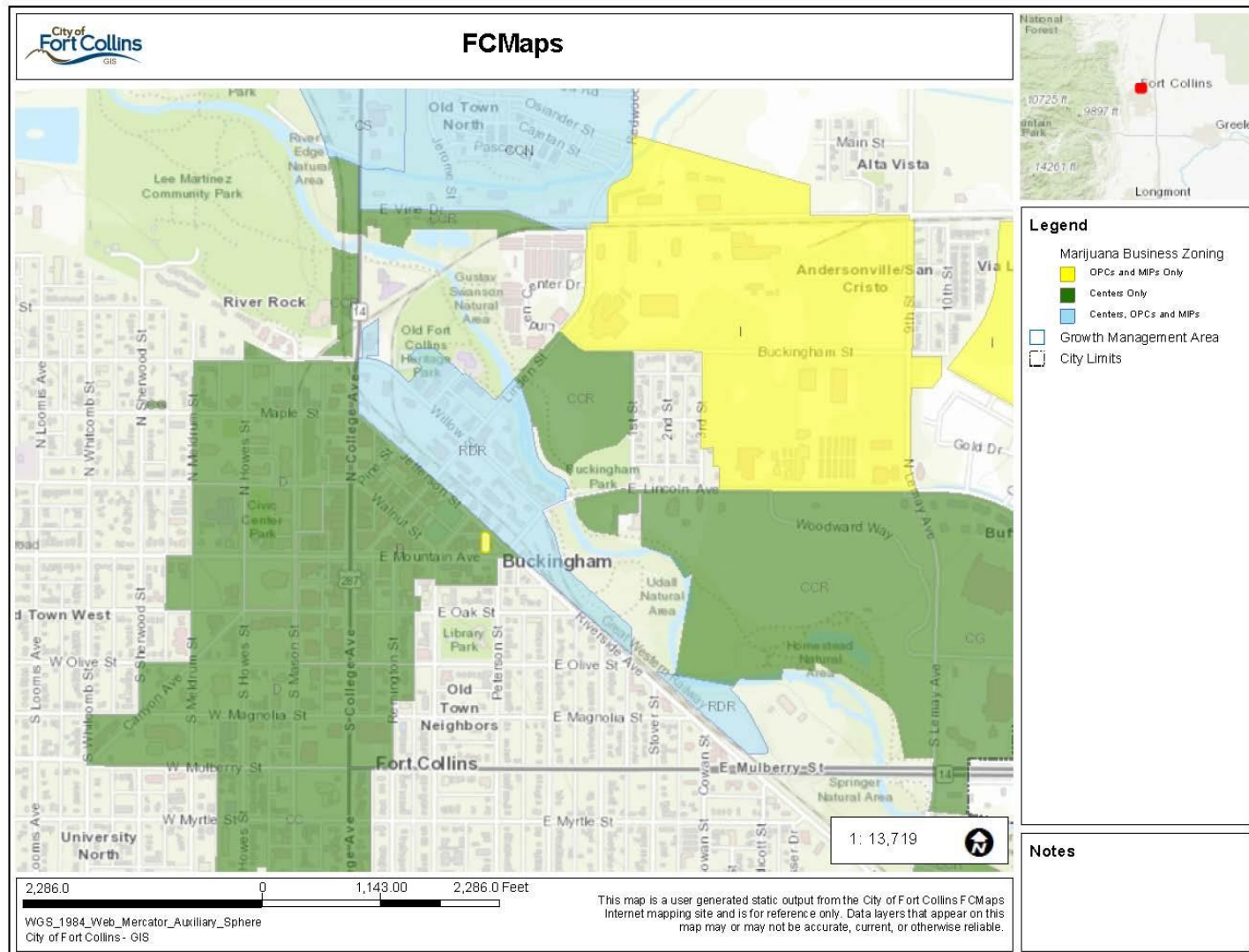
Noah – How do we get to here?



A City Marijuana Team



Is it allowed in the Zone District?



What type of Marijuana Business is allowed?

Medical Marijuana Zones and License Types

ZONE DISTRICT	Medical Centers (MMC)	Medical Optional Premises Cultivation (OPC)	Medical Marijuana Infused Products (MIP)	Medical Marijuana Testing Facilities (MTF)	Medical Marijuana Research & Development Facility	Medical Marijuana Research & Development Cultivation
C-C: Community Commercial	•					
C-C-N: Community Commercial – North College	•	•	•	•	•	•
C-C-R: Community Commercial – Poudre River	•					
C-G: General Commercial	• (Not Permitted in the CAC)					
C-L: Limited Commercial		• (Not Permitted in Riverside Area)	• (Not Permitted in Riverside Area)	• (Not Permitted in Riverside Area)	• (Not Permitted in Riverside Area)	• (Not Permitted in Riverside Area)
C-S: Service Commercial	•	•	•	•	•	•
D: Downtown	•					
I: Industrial		•	•	•	•	•
R-D-R: River Downtown Redevelopment	•	•	•	•	•	•

What type of Development Review?

DIVISION 4.28 INDUSTRIAL DISTRICT (I)

(A) **Purpose.** The Industrial District is intended to provide a location for a variety of work processes and work places such as manufacturing, warehousing and distributing, indoor and outdoor storage, and a wide range of commercial and industrial operations. The Industrial District also accommodates complementary and supporting uses such as convenience shopping, child care centers and housing. While these Districts will be linked to the City's transportation system for multiple modes of travel, some may emphasize efficient commercial trucking and rail traffic as needed. Industrial and manufacturing processes used in this District may, by necessity, be characteristically incompatible with residential uses.

(B) **Permitted Uses.**

(1) The following uses are permitted in the I District, subject to basic development review provided that such uses are located on lots that are part of an approved site-specific development plan, except that a stationary vendor use must be approved as a minor amendment:

(a) **Accessory/Miscellaneous Uses:**

1. Accessory buildings.
2. Accessory uses.
3. Outdoor vendor.
4. Stationary vendor.
5. Urban agriculture.
6. Off-site construction staging.

(b) Any use authorized pursuant to a site-specific development plan that was processed and approved either in compliance with the Zoning Code in effect on March 27, 1997, or in compliance with this Code (other than a final subdivision plat, or minor subdivision plat, approved pursuant to Section 29-643 or 29-644 of prior law, for any nonresidential development or any multi-family dwelling containing more than four (4) dwelling units), provided that such use shall be subject to all of the use and density requirements and conditions of said site-specific development plan.

(c) Any use which is not hereafter listed as a permitted use in this zone district but which was permitted for a specific parcel of property

pursuant to the zone district regulations in effect for such parcel on March 27, 1997; and which physically existed upon such parcel on March 27, 1997; provided, however, that such existing use shall constitute a permitted use only on such parcel of property.

(d) **Institutional/Civic/Public Uses:**

1. Neighborhood parks as defined by the Parks and Recreation Policy Plan.

(e) **Residential Uses:**

1. Extra occupancy rental houses with five (5) or fewer tenants.
2. Short term primary rentals.

(f) **Industrial Uses:**

1. Medical marijuana optional premises cultivation operations.
2. Medical marijuana-infused product manufacturers.
3. Retail marijuana cultivation facility.
4. Retail marijuana product manufacturing facility.
5. Retail and medical marijuana testing facility.
6. Small-scale and medium-scale solar energy systems.

(2) The following uses are permitted in the I District, subject to administrative review:

(a) **Residential Uses:**

1. Mixed-use dwellings constructed above nonresidential uses, provided that the aggregate floor area of all mixed-use dwellings does not exceed the aggregate floor area of all nonresidential uses in the building.
2. Extra occupancy rental houses with more than five (5) tenants.

(b) **Institutional/Civic/Public Uses:**

1. Public and private schools, including colleges, universities, vocational and technical training.

Vacant Space



Amending an Existing Plan

12-9 12-14-10 H-T-D

**City of
Fort Collins**

Comments Due By: 2-22-10 H-A-40
Minor Amendment # MA-10-00090 CFMA10006
Planner Peter Barnes
Effective Date 3-31-11

CONFIDENTIAL

Minor Amendment Application Form

Date Submitted: 9/17/2010 *Revisions 10-14 to Revisions 11-30-10*

Project Name: 337 Hickory St. - Change of Use

Project Location (Street Address): 337 Hickory Street Minor Amendment Fee: **\$192.00**

Legal Description: LOTS 19 THRU 28, BLK 21 RIVERSIDE PARK 3 TO 6, WITH E 40 FT ADJ VAC 5TH AVE AND W 10 FT OF VAC ADJ ALLEY, ETC

General Information: *List all property owners having a legal/equitable interest in the property (Attach separate sheets if necessary).*

Owner's Name (s): Hickory 337, LLC

Street Address: 337 Hickory St City/State/Zip: Ft. Collins CO 80524

Telephone: 970 407-9900 Fax: 907-7885

Applicant's/Consultant's Name: Troy W. Jones Name of firm: MTA Planning & Architecture

Street Address: 238 Walnut St, Suite 200 City/State/Zip: Ft. Collins CO 80524

Telephone: 970 416 7431 Fax: 970 825 8340 Email: troy@mtaplanningandarchitecture.com

SUBMITTAL REQUIREMENTS:

- 1) Six (6) copies of RECORDED plan (i.e. site, landscape, elevation, etc.) whichever is being altered) on 24" x 36" size (usually available at the Technical Services Department at 281 N. College) - RED-LINE THE CHANGES ON the six plans or provide six copies of revised drawings showing the changes in addition to the six originals;
- 2) Completed and signed application form; and
- 3) Application fee of \$192.00.

CONFIDENTIAL

MINOR AMENDMENT

Detailed description of the change and reason(s) for the request: This is a request to change the use of the building at 337 Hickory St. from light industrial to an "either-or" or combined uses of light industrial and medical marijuana cultivation facility. Included in the application are street improvements designs and site improvements to bring the site into compliance with the LDC.

CERTIFICATION

I certify the information and exhibits submitted are true and correct to the best of my knowledge and that in filing this application, I am acting with the knowledge, consent, and authority of the owners of the property (including all owners having a legal or equitable interest in the real property, as defined in Section 1-2 of the City Code; which is the subject of this application) without whose consent and authority the requested action should not lawfully be accomplished. Pursuant to said authority, I hereby permit City officials to enter upon the property for the purpose of inspection, and if necessary, for posting a public notice on the property.

Name (please PRINT): Troy W. Jones

Address: 238 Walnut St, Suite 200

Telephone: 970 416 7431 Signature: [Signature]

281 N. College Ave, PO Box 580, Fort Collins, CO 80522, (970) 416-2745 F: (970) 224-6134

CF MA10006

Where are the Marijuana Businesses?

12-9 12-14-10 H+T+D

**City of
Fort Collins**

Comments Due By: 2-22-10 H+T+D
Minor Amendment # MA1000090 CFMA10006
Planner Peter Barnes
Effective Date 3-31-11

CONFIDENTIAL

Minor Amendment Application Form

Date Submitted: 9/17/2010 Revisions 10-14 to Revisions 11-30-10

Project Name: 337 Hickory St. - Change of Use

Project Location (Street Address): 337 Hickory Street Minor Amendment Fee: 2.00

Legal Description: LOTS 19 THRU 26, BLK 21 RIVERSIDE PARK 1/2 AC, WITH E 40 FT ADJ VAC ST AND W 10 FT OF VAC ADJ ALLEY, ETC

General Information: List all property owners having a legal/equitable interest in the property. (Attach a copy of the deed or other document showing ownership.)

Owner's Name (s): Hickory 337, LLC

Street Address: 337 Hickory St. City/State/Zip: Fort Collins, CO 80524

Telephone: Don 407-9900 Fax: 407-7885

Applicant's/Consultant's Name: Troy W. Jones Name of Firm: TA Planning & Architecture

Street Address: 238 Walnut St., Suite 200 City/State/Zip: Fort Collins, CO 80524

Telephone: 970 416 7431 Fax: 970 416 7431 Email: troy@tdtowndesignstudio.com

SUBMITTAL REQUIREMENTS:

1) Six (6) copies of RECOMMENDED plan, site, landscape, elevation, etc. whichever is being altered) on 24" x 36" size (usually available at the Technical Services Department at 281 N. College) - RED-LINE THE CHANGES IN the original drawings. Provide six copies of revised drawings showing the changes in addition to the originals.

2) Completed and signed application form; and

3) Application fee of \$2.00.

CONFIDENTIAL

MINOR AMENDMENT

Detailed description of the change and reason(s) for the request: This is a request to change the use of building at 337 Hickory St. from light industrial to an "either-or" or combined use of light industrial and medical marijuana cultivation facility. Included in the application are street improvements designs and site improvements to bring the site into compliance with the LDC.

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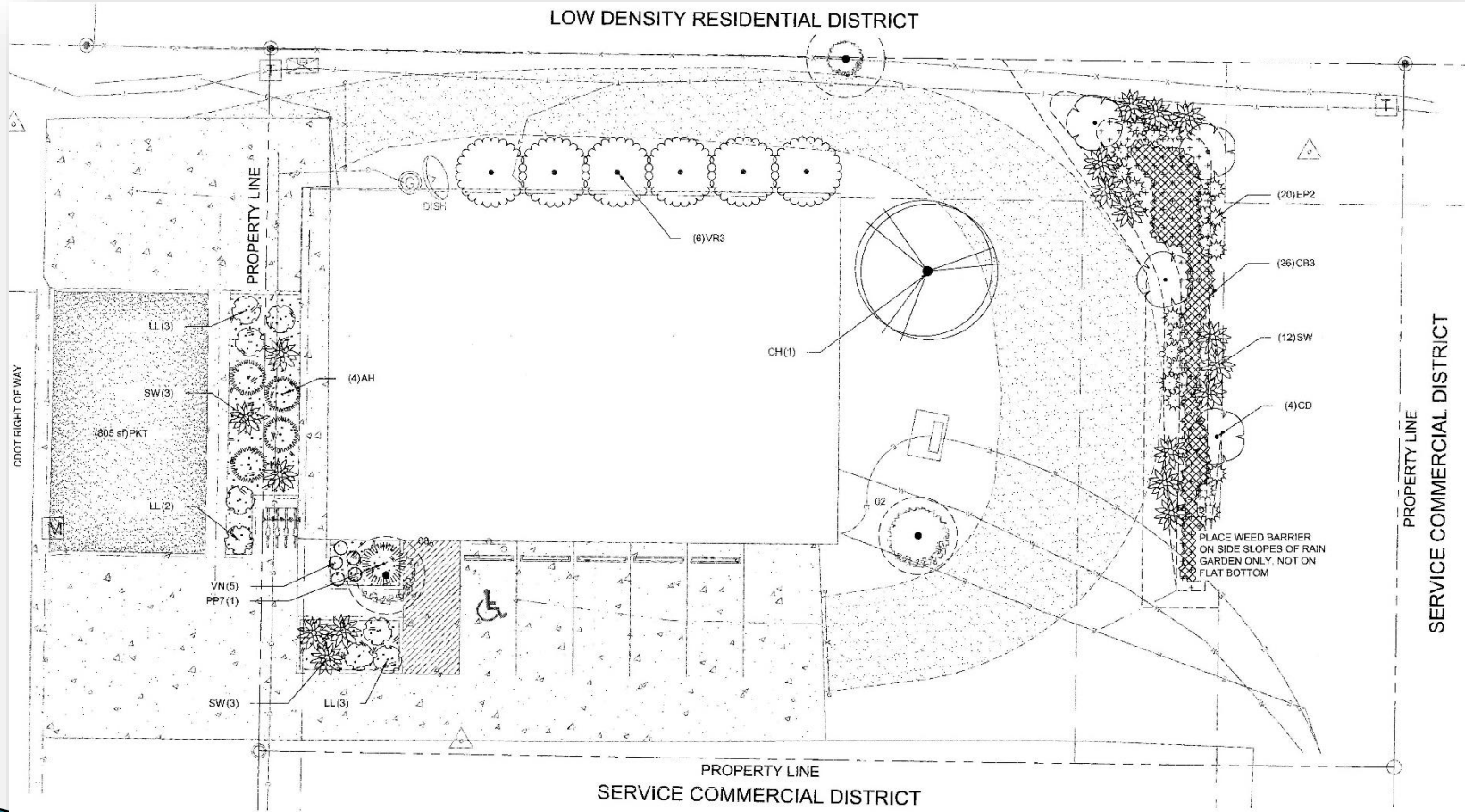
Address: 238 Walnut St., Suite 200

Telephone: 970 416 7431 Signature: [Signature]

281 N. College Ave, PO Box 580, Fort Collins, CO 80522, (970) 416-2745 F: (970) 224-6134

CF MA10006

Approved Development Plan



How do we get a License?



ZONING REPORT MEDICAL MARIJUANA BUSINESS

Applicant must complete this form for each proposed location. The form must be submitted to the Zoning Department, which will complete the lower portion and return it to the applicant. The applicant must then submit this form as a part of the application packet.

PROPERTY

Street Address:	1101 Academy Ct Unit 4
Existing Use of Property:	Storage
Property Owner:	Kelly Jones
Property Owner Contact Info:	970-420-9302

PROPOSED USE

- ☒ Medical Marijuana Center
☐ Optional Premise Cultivation
☐ Infused-Products Manufacturing

Attach a to-scale floor plan and site plan for proposed business

Description of proposed use:

retail location for medical marijuana center,
old grandfathered location before ban.

CONTACT INFORMATION

Name of Applicant or Contact Person:	Brandon Forges
Trade Name of Business:	MBLPS LLC
Email Address:	winterbrew22@yahoo.com
Phone:	970-214-1591 (work) / (home) / (cell) same

TO BE COMPLETED BY ZONING DEPARTMENT

Application Reviewed By:	Peter Bauer	Date:	7-29-13
Zone District:	I	Allowed?	yes - grandfathered
Land Use Approval Required:	<input checked="" type="checkbox"/> None <input type="checkbox"/> Minor Amendment Required <input type="checkbox"/> Sign Permit Required		
Application Submitted (Date) and Fees Paid (Amt):	N/A		
Estimated Time to Process Land Use Application:	N/A		

RECEIVED 4/2/13



ZONING REPORT MARIJUANA BUSINESS

Applicant must complete this form for each proposed location. The form must be submitted to the Zoning Department, which will complete the lower portion and return it to the applicant. The applicant must then submit this form as a part of the application packet.

APPLICANT/PROPERTY OWNER

Applicant Name:	Trade Name of Business (DBA):
Applicant Contact:	Email:
Applicant contact Phone(s):	
Property Address:	Existing Use of Property:
Property Owner:	Property Owner Phone:

PROPOSED USE: Y Check all that are located at above location:

- ☐ Medical Marijuana Center
☐ Medical Marijuana Optional Premises Cultivation
☐ Medical Marijuana Infused Products Manufacturing
☐ Medical Marijuana Testing Facility
☐ Medical Marijuana Research Development Facility
☐ Medical Marijuana Research Development Cultivation
- ☐ Retail Marijuana Store
☐ Retail Marijuana Cultivation Facility
☐ Retail Marijuana Products Manuf.
☐ Retail Marijuana Testing Facility


Attach a to-scale site plan for proposed business

Description of proposed use:

TO BE COMPLETED BY ZONING DEPARTMENT

Reviewed By:	Date:	
Zone District:	Allowed?	
Land Use Approval Required:	<input type="checkbox"/> None <input type="checkbox"/> Minor Amendment/Development Review Completed <input type="checkbox"/> Sign Permit Required <input type="checkbox"/> Building Permit Needed	
Notes/comments:		

Yes, a Building Permit is also Required

 **COMMUNITY DEVELOPMENT & NEIGHBORHOOD SERVICES**
281 N. College Ave. • Fort Collins, CO 80522-0580 • Phone: 970-221-6760
www.fcgov.com/building

BUILDING PERMIT APPLICATION

APPLICATION NUMBER _____ APPLICATION DATE _____

Job Site Address _____ Unit # _____

PROPERTY OWNER INFO: (All owner information is required – it is not optional) Phone # _____
Last name _____ First Name _____ Middle _____
Street Address _____ City _____ State _____ Zip _____

CONTRACTOR INFO: Company Name _____ Contractor Phone # _____
Lic Holder Name _____ City of Fort Collins License # _____ Supervisor Cert # _____
Mailing Address _____ City _____ State _____ Zip _____

LEGAL INFO:
Subdivision/PUD _____ Filing # _____ Lot # _____ Block # _____ Lot Sq Ft _____

CONSTRUCTION INFO: Total Building Sq Ft (not including basement) _____ Total Garage Sq Ft _____
Residential Sq Ft _____ Comm'l Sq Ft _____ # of Stories _____ Bldg Height _____ # Dwelling Units _____
1st Floor Sq Ft _____ 2nd Floor Sq Ft _____ 3rd Floor Sq Ft _____ Unfinished Bsmt Sq Ft _____
Finished Bsmt Sq Ft _____ # of Bedrooms _____ # of Full Baths _____ ½ Baths _____ # of Fireplaces _____

Air Conditioning: Yes No **Energy Info:** (Circle appropriate choice) 1. ComCheck 2. ResCheck w/Air Sealing
3. ResCheck w/Blower Door 4. Simulated Performance Alternative 5. Prescriptive w/Air Sealing 6. Prescriptive w/ Blower Door

City of Fort Collins Stock Plan # _____ List appropriate option #s _____

UTILITIES INFO:
Water Tap Size _____ Sewer Tap Size _____ Metered: Yes or No Temp. Pedestal Yes or No
Type of Heat: ☐ Gas ☐ Electric Electric Main Breaker Size (Residential only) ☐ 150 Amp or Less ☐ 200 Amp ☐ Other
Value of Construction (including labor, material & profit) \$ _____
Description of Work: _____

Contact Name & Phone # of JOBSITE SUPERVISOR: _____

Subcontractor Info:
Electrical _____ Mechanical _____ Plumbing _____
Framer _____ Roofing _____ Concrete _____ Fireplace _____
Solar _____ Other _____ Other _____ Other _____

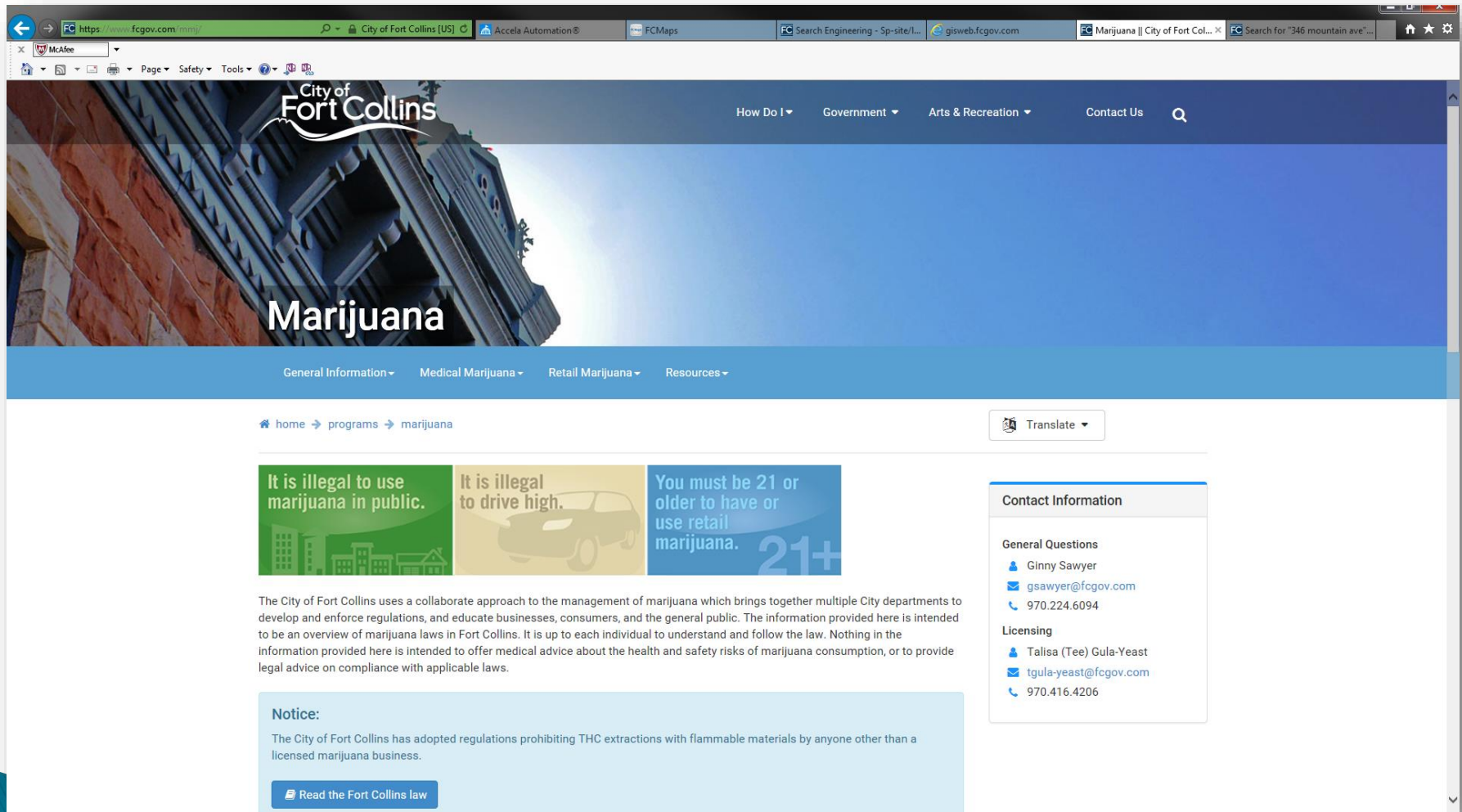
Applicant: I hereby acknowledge that I have read this application and state that the above information is correct and agree to comply with all requirements contained herein and City of Fort Collins ordinances and state laws regulating building construction.

Applicant Signature _____ Print Name _____ Phone _____

Distribution: White – Office Yellow – Applicant Pink – WWW/Stormwater

THIS APPLICATION EXPIRES 180 DAYS FROM APPLICATION DATE

Share the Information



The screenshot shows a web browser window displaying the City of Fort Collins website. The address bar shows the URL <https://www.fcgov.com/mmj/>. The page features a large header image of a classical building facade with the word "Marijuana" overlaid in white. A navigation menu at the top includes links for "How Do I", "Government", "Arts & Recreation", and "Contact Us". Below the header, a secondary navigation bar lists "General Information", "Medical Marijuana", "Retail Marijuana", and "Resources". The main content area has a breadcrumb trail: "home → programs → marijuana". To the right of the breadcrumb is a "Translate" button. The content is divided into three colored boxes: a green box stating "It is illegal to use marijuana in public.", a yellow box stating "It is illegal to drive high." with a car icon, and a blue box stating "You must be 21 or older to have or use retail marijuana." with a "21+" icon. Below these boxes is a paragraph explaining the City's collaborative approach to marijuana management. A "Notice" box at the bottom left states that THC extractions with flammable materials are prohibited. A "Contact Information" sidebar on the right lists "General Questions" with contact details for Ginny Sawyer and "Licensing" with contact details for Talisa (Tee) Gula-Yeast.

City of Fort Collins

How Do I Government Arts & Recreation Contact Us

Marijuana

General Information Medical Marijuana Retail Marijuana Resources

home → programs → marijuana

Translate

It is illegal to use marijuana in public.

It is illegal to drive high.

You must be 21 or older to have or use retail marijuana. 21+

The City of Fort Collins uses a collaborate approach to the management of marijuana which brings together multiple City departments to develop and enforce regulations, and educate businesses, consumers, and the general public. The information provided here is intended to be an overview of marijuana laws in Fort Collins. It is up to each individual to understand and follow the law. Nothing in the information provided here is intended to offer medical advice about the health and safety risks of marijuana consumption, or to provide legal advice on compliance with applicable laws.

Notice:

The City of Fort Collins has adopted regulations prohibiting THC extractions with flammable materials by anyone other than a licensed marijuana business.

[Read the Fort Collins law](#)

Contact Information

General Questions

Ginny Sawyer
 gsawyer@fcgov.com
 970.224.6094

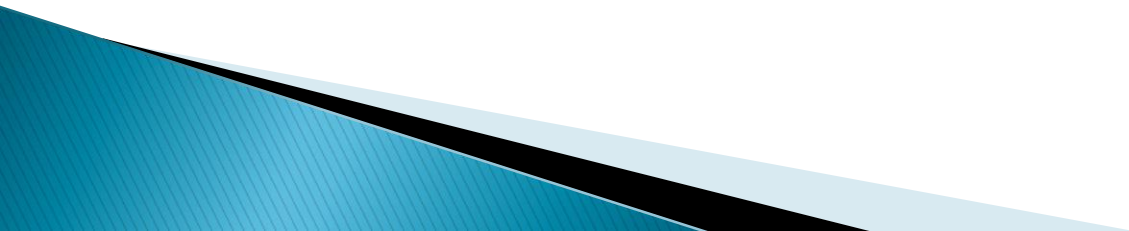
Licensing

Talisa (Tee) Gula-Yeast
 tgula-yeast@fcgov.com
 970.416.4206

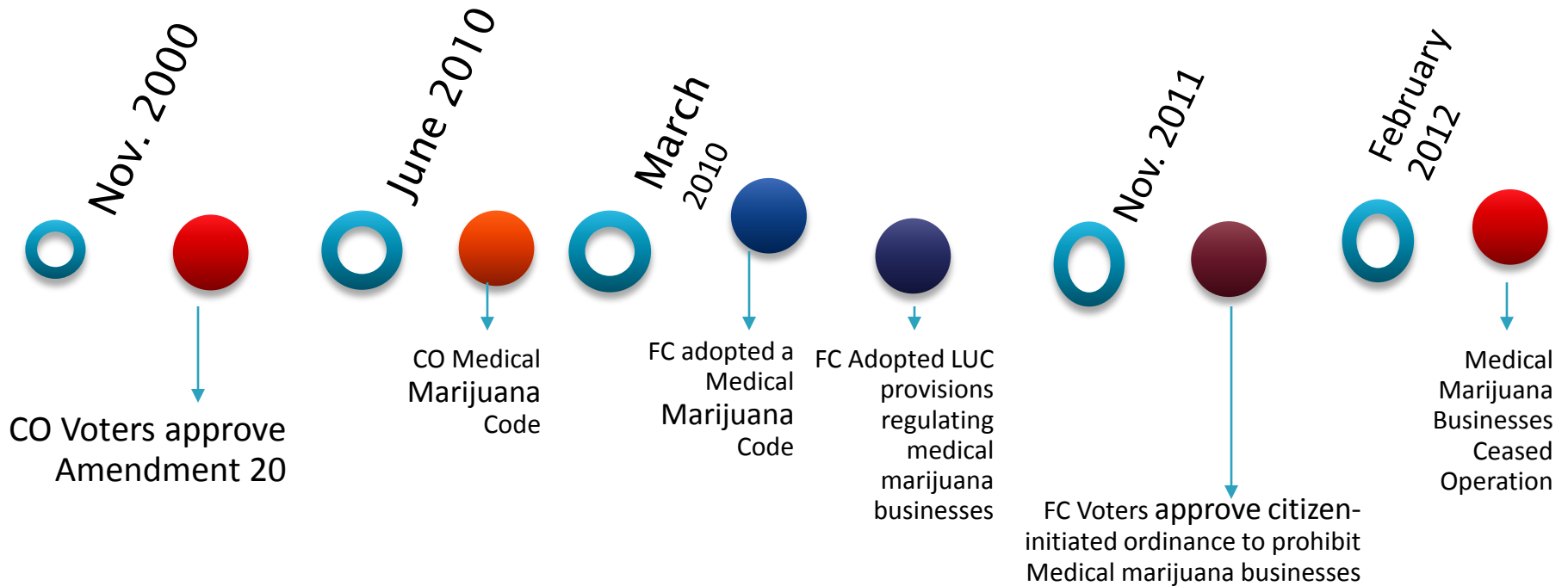
Lessons from the Land of Pot

Fort Collins' Approach

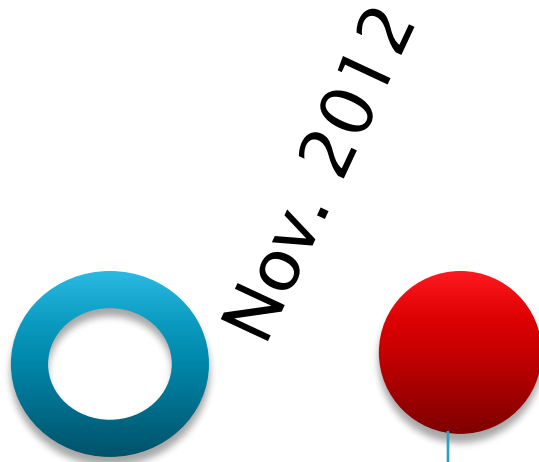
Bronwyn Scurlock



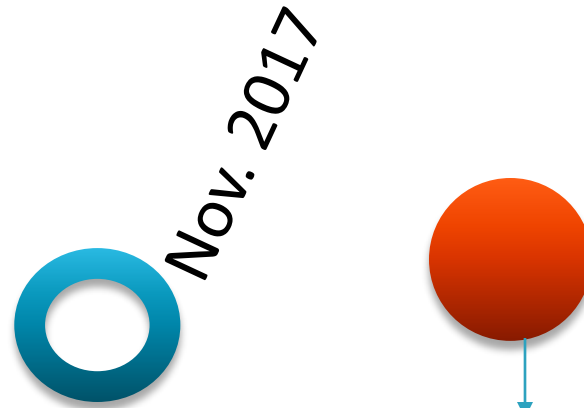
History of Medical Marijuana Businesses – Fort Collins



Bronwyn– History of Medical Marijuana Businesses – Fort Collins

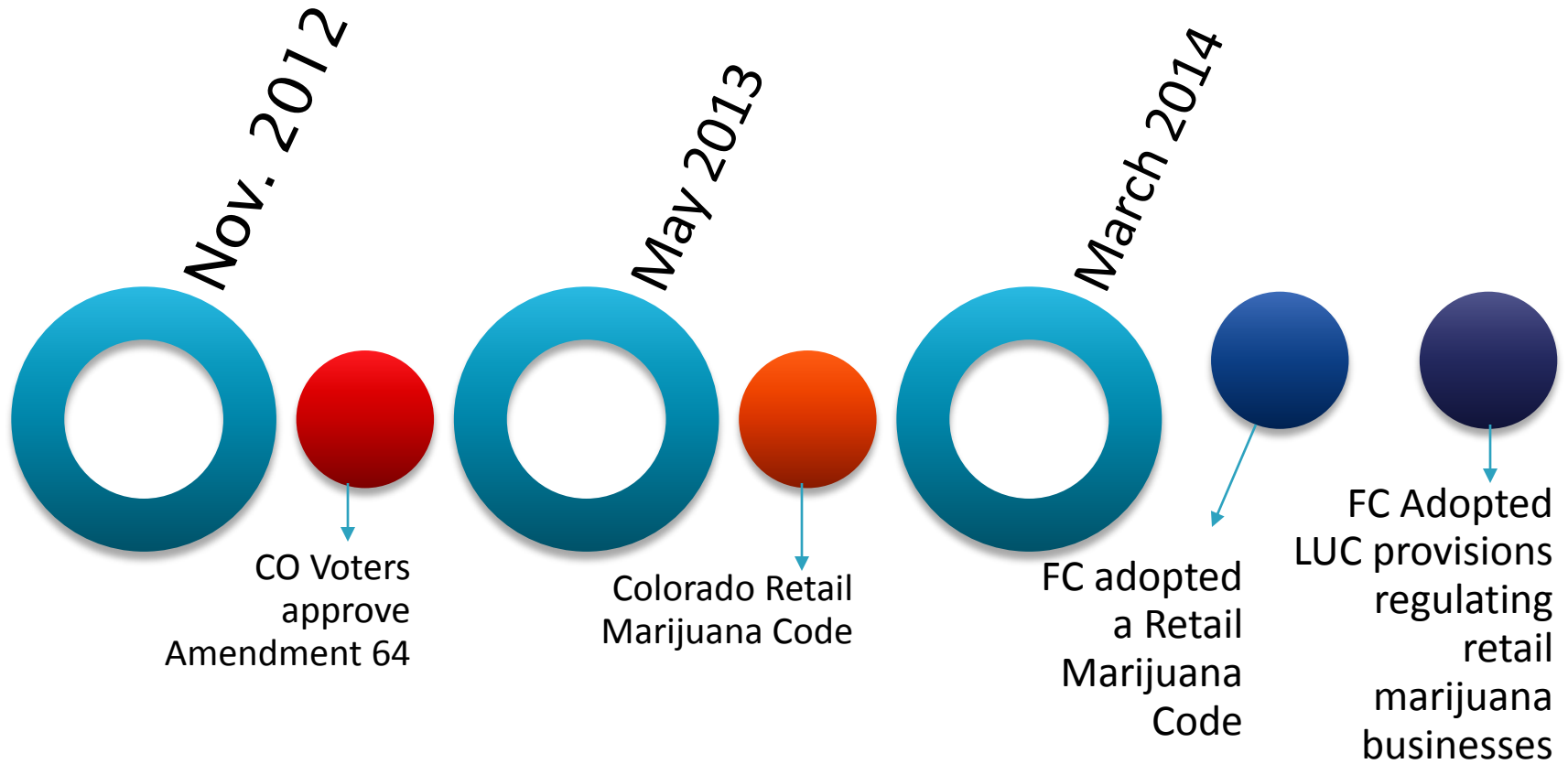


FC Voters Approve
citizen-initiated
ordinance that
reinstated medical
marijuana
businesses



Voters approved a
provision allowing City
Council to make
amendments - additions
to the medical marijuana
code to stay current with
state law

History of Retail Marijuana Businesses – Fort Collins



MEDICAL	Center	Optional Premises Cultivation	Infused Products Manufacturer
# of Licenses	10	10	4
Pending Issuance	1	2	1

28 Medical Marijuana Licensees

RETAIL	Store	Cultivation Facility	Infused Products Manufacturer	Testing Facility
# of Licenses	10	9	3	0
Applications Under Consideration	0	3	4	0

29 Retail Marijuana Licensees

Local Limitations on Marijuana Businesses

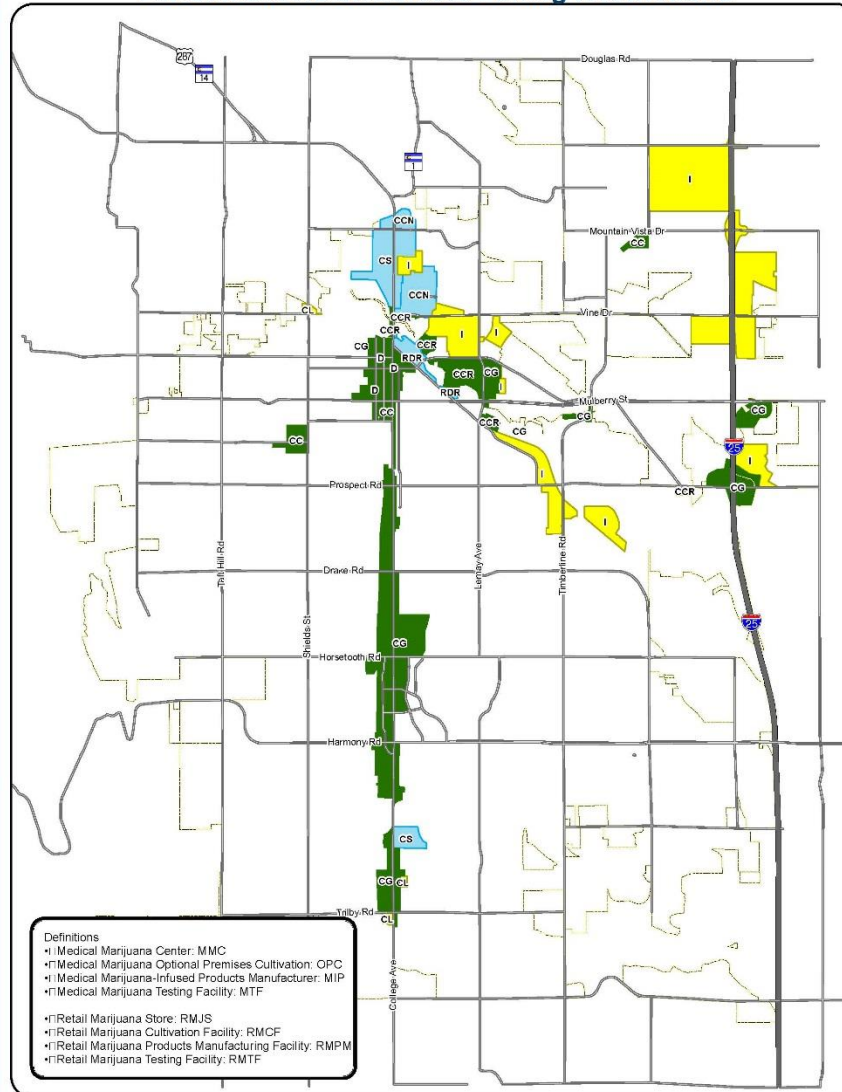
- Medical

- limitation on 10 centers (one per every 500 patients in Larimer County)
 - Cap does not apply to businesses licensed prior to Nov 1, 2011 (date voters banned marijuana)

- Retail

- Only licensed medical marijuana centers can have retail marijuana stores
 - Must be co-located on same premises
 - Must be 21 years of age to enter
 - Only a licensed store or MIP may have a cultivation facility in the City
 - Cultivations in FC can sell to MIPS and Stores outside of the City limits

Land Available that meets Zoning Restrictions



- Definitions**
- Medical Marijuana Center: MMC
 - Medical Marijuana Optional Premises Cultivation: OPC
 - Medical Marijuana-Infused Products Manufacturer: MIP
 - Medical Marijuana Testing Facility: MTF
 - Retail Marijuana Store: RMJS
 - Retail Marijuana Cultivation Facility: RMCF
 - Retail Marijuana Products Manufacturing Facility: RMPM
 - Retail Marijuana Testing Facility: RTMF

MMC and RMJS only

-  - 1703 Acres City Wide
OPC, RMCf, MIP, RMPM, MTF, and RMTf Only (No MMC or RMJS)
-  - 1555 Acres City Wide
OPC, RMCf, MIP, RMPM, MTF, RMTf and MMC, RMJS
-  - 518 Acres City Wide



Grade 4-5: 100%

CITY OF FORT COLLINS
GEOGRAPHIC INFORMATION SYSTEM MAP PRODUCTS[illegible]

Licensing Violations in Fort Collins

- ▶ Licensed marijuana businesses
 - Fines
 - minimum – \$500
 - maximum – \$100,000
 - Store and Center Penalties
 - Violations
 - provide 90 days of marijuana sales prior to the date of violation
 - calculate the average sales for 30 days
 - 20% of average sales

Licensing Violations in Fort Collins

➤ Cultivation Violations

- Licensee provides spreadsheet of all product including bud, shake and immature plants for the last 90 days
- determine the average market rate (DOR website) for 90 days of product
 - Multiply the value for 5 days worth of production by 20%
 - Case-by-case basis

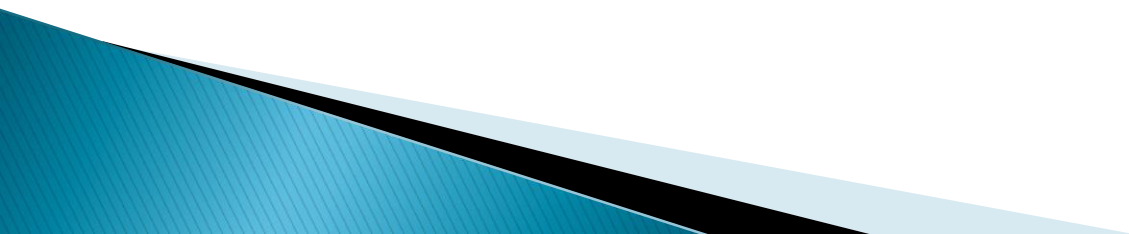
Enforcement Issues in Fort Collins

- ▶ Unlicensed marijuana grows
 - Local 12 plant limit in homes
 - Litigation – municipal judge issued search warrant
 - January 1, 2018 – state law 12 plant limit
 - Issue for DA's office
- Odor Issues
 - Cannot leave the property line

Lessons from the Land of Pot

What the Market Did

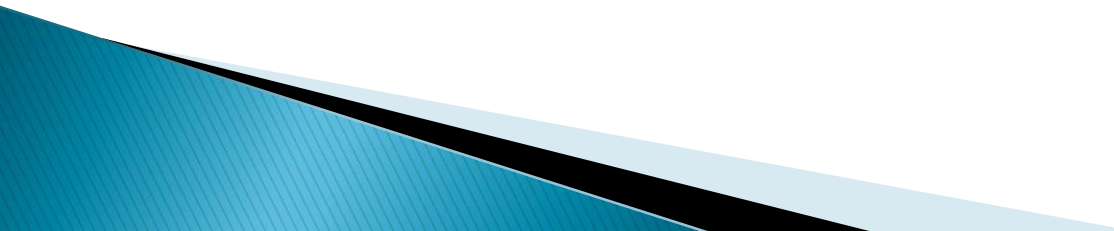
Don Elliott



Lessons from the Land of Pot

Land Use Impacts

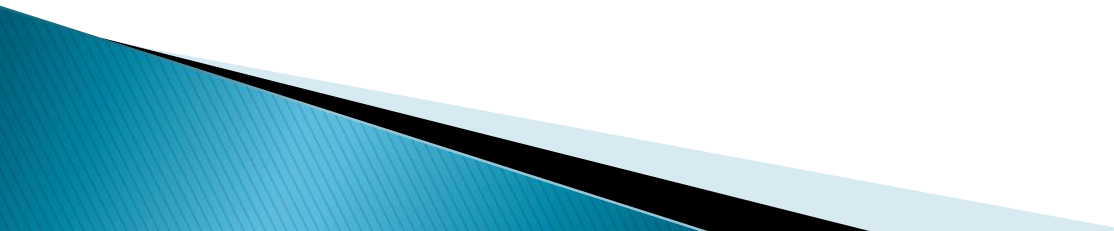
The Headlines and Quotes are Amazing

- Portland grower pays \$12–\$18/annual/sf premium over normal \$5 warehouse rate. Sometimes the premium was 10 times the normal warehouse rate (Bloomberg 2016)
 - Investors in WA, CO, OR rushed to buy and upgrade warehouses in locations where grow operations were allowed (Bloomberg 2016)
 - Because of industry risk, rents for marijuana businesses have sometimes increased 50% per year (Inc. April 2016)
 - A \$2 million piece of land could go for as much as \$10 million if zoned properly (Inc. April 2016)
 - A real estate investment trust raised \$25 million to buy properties in states where marijuana is legal, including three in Denver and then rent the buildings to marijuana businesses like Strainwise, Medicine Man, and Dixie Elixirs. (Inc. April 2016)
- 

Lessons from the Land of Pot

Land Use Impacts

The Headlines and Quotes are Amazing

- Armstrong Steel, a Denver-based steel building construction company and Inc. 5000 honoree, has seen a 35 percent increase in revenue since January, in part from building grow houses like the one above. (Inc. June 2014)
 - You have to find a safe place to store your money. Where else but real estate. (Inc. June 2014)
 - Entire new categories of businesses have sprung up around legal weed. One of Bacon's clients is a software company that has built a seed-to-sale tracking system for marijuana growers and dispensaries. (Inc. June 2014)
- 

Lessons from the Land of Pot

Land Use Impacts

Let's Bring it Down to Earth

Q: Is demand for pot locations driving the real estate boom in Colorado or in the Denver metro area?

A: No. At least four other factors also working to drive prices up:

- General recovery from the Great Recession
- RTD acquisition of land along industrial/rail corridors created a unique market in the Denver Metro Area
- The move back to the city
- Generally growing popularity of the Denver metro area in particular



Lessons from the Land of Pot

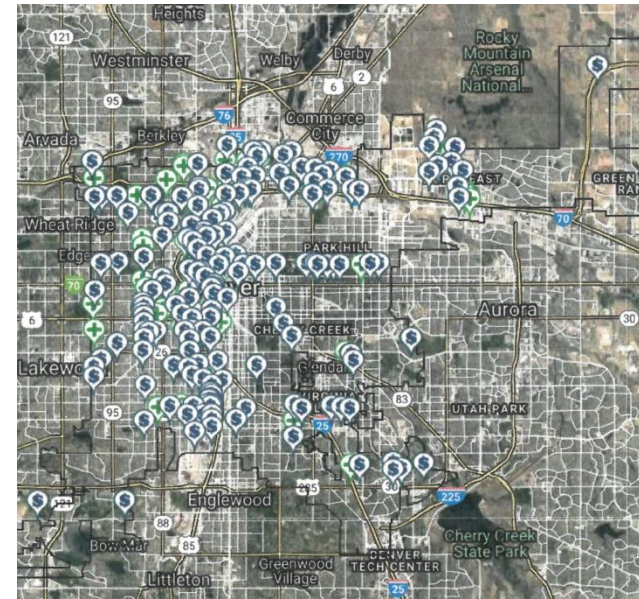
Land Use Impacts

Let's Bring it Down to Earth

Q: Where is the demand for marijuana activities and uses being felt

A: Generally:

- In areas where zoning allows them
- In buildings that do not have a mortgage (to avoid RICO claims against the bank, and because many mortgages require businesses to be legal)
- In projects without any direct or indirect federal funds (no LIHTC, no CDBG, no federal tenants)



Lessons from the Land of Pot

Q: What types of buildings are most impacted by demand for marijuana activities?

A: Warehouses – particularly B and C class warehouses that do not have mortgages

- The size of the buildings, plus higher requirements for power, lighting, utilities, fire protection, and security require much greater investments than normal warehouses
- In the short run this absorbed an oversupply of poor quality industrial buildings

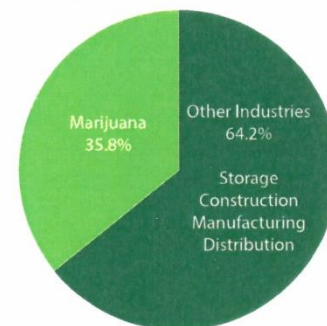


Lessons from the Land of Pot

Q: How big was the impact on the warehouse market?

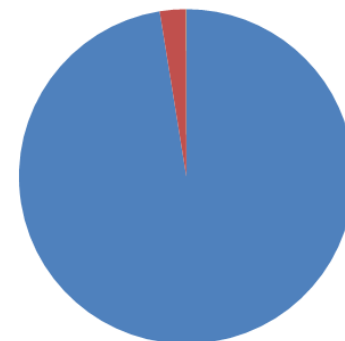
A: **Depends on how you look at it**

- Responsible for 35% of warehouse leasing between 2009–2014 (but most of that between 2009 and 2011)
- 3.7 million sq. ft. in Denver
- Vacancy rates in marijuana eligible locations fell further, and rents rose higher, than in other locations
- At lease rates twice or three times the non-marijuana warehouse rates
- But the typical lease was only 10,000–20,000 sq. ft.
- And all that space made up only 2.6% of Denver warehouse space



Source: CBRE Research, Q2 2015.

Marijuana as a share of Denver warehouse space



CBRE 2015

Lessons from the Land of Pot

Q: What about the manufacturing and testing facilities?

A: They often co-located in warehouse facilities or occupied light or heavy industrial space

- They may only occupy 10% as much space as the cultivation facilities
- So they are generally accounted for in the warehouse lease rate data.



Lessons from the Land of Pot

Q: What about the retail sales facilities?

A: The impact has been relatively small

- Although there are five times as many as freestanding (non-grocery) Starbucks stores, CBRE estimates that each one occupies only about 1,000 sq. ft.
- Total occupied space is estimated at 428,000 sq. ft. = 2.8% of retail market
- Mostly underused Class B and C space
- Revenue from extractives (oils and candies) now exceeds revenue from leaf business.



Lessons from the Land of Pot

Q: What Does the Future Hold?

A: Changes in the warehouse market as more states legalize grow operations

- Prices for marijuana are already falling
- Some grow operations are actually serving out of state customers, and will lose those customers when closer grow operations are available
- It is much cheaper to grow in greenhouses rather than warehouses, so legalization in warmer states will create competition



Lessons from the Land of Pot

Q: What Does the Future Hold?

A: Changes in the warehouse market as more states legalize grow operations

- Building owners used to receiving twice to five times normal warehouse rents will be reluctant to lower rents quickly
- The need to recoup costs of very high intensity lighting, very heavy duty HVAC, security systems, and visibility barriers in already aged B and C class buildings will further slow down rent adjustments – and could result in more vacancies



Lessons from the Land of Pot

Q: What Does the Future Hold?

A: Changes in the warehouse market as more states legalize grow operations

- It is not clear what it will cost to address pollen and/or odor issues in grow warehouses, because none have yet been retrofitted back to non-marijuana uses to date
- Those costs will also slow down market adjustments, and may also contribute to vacancies



Lessons from the Land of Pot

Q: What Does the Future Hold?

A: Possible adjustments in tourism and related retail facilities

- In 2015, Hotels.com ranked Colorado as its 14th most popular tourism destination – up five spots from the prior year
- In 2014, 44% of retail marijuana sales were made to out-of-state visitors. In mountain towns that figure may be closer to 90%
- Those numbers will probably weaken as more states legalize
- However, marijuana sales are less subject to competition from on-line retailers than other types of retail



Questions and Discussion



Noah Beals nbeals@fcgov.com

Kyle Dalton kyle.dalton@denvergov.org

Don Elliott delliott@clarionassociates.com

Bronwyn Scurlock bscurlock@fcgov.com