

Medical Marijuana: The Impact on Commercial Real Estate

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State of Marijuana Laws in the US

- California was the first state to approve medical marijuana in 1996.
- Since then:
 - 28 states legalized medical marijuana
 - 8 states legalized recreational marijuana

State of Marijuana Laws in the US

- 2013: DOJ issues Cole Memorandum
- Marijuana remains illegal federally
- Confirmation of Jeff Session as Attorney General creates uncertainty for industry's future

State of Marijuana Laws in Florida

- **2014: Compassionate Medical Cannabis Act**
 - Low-THC medical cannabis for patients suffering with cancer or a condition that causes chronic seizures or muscle spasms
- **2015: Right to Try Act**
 - High THC medical cannabis for terminally ill patients
- **2016: Amendment 2**
 - Expands qualifying medical conditions
 - Rule promulgation by July, 2017
 - Rule implementation by October, 2017

State of Marijuana Laws in Florida

- **Draft Amendment 2 Implementation Rules (Rule 64-4.012)**
 - Maintains existing statutory definitions
 - More dispensing organizations can be awarded licenses in the future
 - Rule development workshops held across the State during the week of February 6th

State of Marijuana Laws in Florida

- **Proposed 2017 FL Senate Bill 614**
 - Establishes 4 new types of function licenses
 - Retail licenses permitted on a population basis of 1 license/25,000 residents in every county
 - Local governments may prohibit any retail facility
 - Allows for smoking medical marijuana

Seven Dispensing Organizations

Dispensing Organization	Authorization Stage	Locations
Trulieve	Dispensing	Tallahassee, Clearwater, Tampa, delivery
Surterra Therapeutics	Dispensing	Tampa, delivery
Modern Health Concepts	Dispensing	Miami, delivery
Knox Medical	Dispensing	Delivery
CHT Medical	Dispensing	Delivery
The Green Solution	Cultivating	N/A
Grow Healthy	N/A	N/A

The Growth of Medical Marijuana

- Nationwide sales could hit \$25 billion in 2020, and \$30 billion in 2021.
- Impacts to commercial real estate for warehouse, industrial and retail spaces
- By 2020, Florida could comprise about 14 percent of the nation's market
 - Sales could top \$1B by 2020

Central Florida: Where is it Allowed?

- **Orange County (Moratorium: until May 23, 2017)**
 - Apopka (Moratorium: until May 16, 2017)
 - Edgewood (Permitted)
 - Maitland (Permitted)
 - Orlando (Moratorium: until June 30, 2017)
 - Windermere (Moratorium: until May 23, 2017)
 - Winter Garden (Moratorium: until May 8, 2017)
 - Winter Park (Permitted)

Central Florida: Where is it Allowed?

- **Seminole County (Moratorium: until July 18, 2017)**
 - Altamonte Springs (Permitted)
 - Casselberry (Permitted)
 - Winter Springs (Moratorium: until July 7, 2017)
- **Osceola County (Permitted)**

Impacts on Standard Lease Provisions

- **Prohibited/Permitted Uses**
- **Rent Payments**
- **Landlord/Tenant Improvements**
- **Standard Default Provisions**
- **Early Termination Rights**
- **Indemnification**

Bruce Knox: Owner's Perspective



Knox Medical

- One of seven licensed medical cannabis dispensing organizations in Florida



Medical Marijuana Dispensaries: Myth



Flickr: lavocado@sbcglobal.net

Medical Marijuana Dispensaries: Reality



Knox Medical: Interior



Medical Marijuana Products: Myth



Knox Medical Products: Reality



Knox Medical: Processing Laboratory



Custom built super critical extraction system for extracting the purest form of oil from a cannabis plant

Knox Medical: Processing Laboratory



This high-pressure liquid chromatograph tells chemists whether the cannabis is at the correct stage to begin processing it.



The Elan 6100 (left) is an inductively coupled plasma mass spectrometer that performs trace-element and speciation analysis. At right is the SterilGard Biological Safety Cabinet, which ensures sterility of its contents.

Security



- **Vehicles:**

- *Fleetmatics:* GPS monitoring
- *Reveal:* Turn-by-turn notifications
- *Zone Defense:* 360° video with audio
- Body cameras
- Biometric safe

- **Facilities:**

- 360° video surveillance with 45-day retention
- Access control locks on every room
- Central station burglar alarm



Ideal Locations for Dispensing Organizations

- Cultivation
- Processing
- Retail Dispensing

Retail Dispensing: Ideal Property Profile

- Between 1,600-3,200 SF in size
- Renovation of Existing Buildings
- Parking ratio of 4 spaces/1,000 SF
- Strong visibility from road
- Over 30,000 cars per day
- Strong co-tenants in corridor
- Existing pylon signage a plus

**Reliance on local brokers to assist in property searches*

John Artope: Broker's Perspective



John Artope: Broker's Perspective

- Challenges Faced in Entering the Retail Market
- Considerations For Brokers
- Lessons Learned

John Artope: Considerations for Brokers/Navigating the Approval Process

- The real estate market in general is not educated about this industry.
- Medical vs. recreational and the perception of both.
- Co-tenancy, will other tenants have issue with this use?
- Co-tenancy, will other tenants have use restrictions against this type of use?
 - Massage Envy was able to change the perception of the massage parlor industry, and the national credit tenants eventually were willing to modified use restrictions to allow this as a reputable spa tenant in center where they previously were restricted.
- Landlord acceptance-
 - Will LL's that are publicly traded (REIT's) have concern, or be restricted in the bylaws or by their shareholders, from leasing to this use?
 - What sort of restrictions will the LL place on the tenant; termination, medical vs. recreational, etc.?
 - Will these transactions be completed by the local landlords?

John Artope: Challenges Entering the Retail Real Estate Market

- Get educated about the industry and the client you represent whether it is the tenant or the landlord.
- Be prepared to answer questions from the LL about the client and their business:
 - Security/potential break-ins
 - Clientele visiting the location
 - Will they go to the recreational market in this leased premises if allowed by law?
 - What happens if the laws change after opening?
 - Will your client need termination rights?
 - How will the money be handled?
- Find out from the LL if there are any prohibited use clauses in any of the existing leases that would prevent this lease on the front end.

John Artope: Lessons Learned

- Education about this industry is key for both the landlord side and the tenant side if this concept is to be effectively rolled out across the state.
- Florida needs to learn from other states like Colorado on what works and what does not work as it relates to leasing space to this type of use.
- Open communication between the LL and tenant is key if transactions are going to get executed.
- If you are representing the landlord, don't wait to get educated. You will be getting these calls, and the better prepared you can be on the front end will help you understand your client's position and how you can best direct the tenant and their client. Don't wait, you will be getting calls!

Questions?