



NEREJ's Cannabis and Commercial Real Estate Summit examines challenges & opportunities for industry

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Newton, MA When Massachusetts passed the Regulation and Taxation of Marijuana Act in December of last year, there was rejoicing by both the recreational use community as well as the cannabis industry. But resistance from both the Massachusetts legislature and local governments has slowed the implementation process for entrepreneurs eager to get their enterprises off the ground. At the “Cannabis and Commercial Real Estate Summit” hosted by the New England Real Estate Journal at the Boston Marriott Newton Hotel in February, panelists discussed the challenges and ways for the real estate community to work with the cannabis industry in the Commonwealth.

The first panel discussed the challenges and opportunities, and featured Tim Keogh, president and CEO of the Denver-based AmeriCann, a firm that develops cannabis cultivation properties; Kris Krane, managing partner at 4Front Ventures, which works with medical marijuana entrepreneurs; and John Connor, principal at Vantage Builders, whose firm just completed a facility in Bridgewater. The panel was moderated by Jim Borghesani, president of Primepoint Strategic Media, who also served as communications director for the Campaign to Regulate Marijuana Like Alcohol in Massachusetts, which spearheaded the passage of the recreational use law.

Shown (from left) are panel speakers: Jim Borghesani of PrimePoint Media; Tim Keogh of AmeriCann; Kris Krane of 4 Front Ventures; and John Connor of Vantage Builders.

Borghesani kicked off the discussion by reminding the sold out crowd of over 250 that while marijuana will soon be legal in Massachusetts, building viable businesses will be challenging.

“You don’t shake off 100 years of prohibition easily...so we’re facing some built in resistance that hopefully will diminish over time.”

Krane detailed some of that resistance, beginning with the difficulty of finding a place to set up shop, due to the many complicated zoning restrictions. “Siting a marijuana facility – whether it’s a cultivation facility or a dispensary – is unlike siting any other kind of business,” he said. Medical marijuana facilities require a city or town’s written permission (although it is unclear what the restrictions will be under the adult use laws), so the possibilities for locating a facility are limited. The next hurdle for marijuana business owners is finding a landlord that will actually rent to them, so he recommends that entrepreneurs try to buy their properties. In his experience, landlords in other parts of the country typically raise rents to offset the kinds of inherent risks that come with hosting a cannabis business (such as potential asset forfeiture by federal agencies).

Connor talked about the specific requirements needed for the buildings (particularly cultivation facilities), including power and lighting configurations. Building structure should also be a consideration for operators, and he cautioned against using pre-fab metal buildings. As for construction costs, Connor said that per square foot build outs are running in the \$175-\$200 per square foot range, with \$100 psf of that figure dedicated to mechanical systems.

Keogh, whose firm is constructing a one million SF facility in Freetown, and has permitted an additional million square feet of cultivation infrastructure in the state, noted that the industry is changing very rapidly. “It’s beginning to look more institutional and is starting to attract more institution grade capital,” he said. “The developers that are coming in are expecting a higher level grade of business plans, designs and development, and they’re looking for a more sophisticated and broader approach.”

The second panel, comprised of Adam Barnosky, an associate in the commercial real estate practice group at Ruberto, Israel & Weiner; Frank Flynn, managing partner/owner of the Flynn Law Group; Steve Gormley, managing partner & CEO at Seventh Point, a private equity fund that invests in the cannabis industry; and Anthony Caiazzo, director of cannabis for the Wellington Group, an insurance brokerage firm, (with NEREJ’s Rick Kaplan moderating),

examined the legal, investment and insurance issues associated with the new law.

Shown (from left) are panel speakers: Anthony Caiazzo of The Wellington Group; Frank Flynn of Flynn Law Group; Steve Gormley of Seventh Point; and Adam Barnosky of Ruberto, Israel & Weiner.

Caiazzo issued a caveat to the audience on identifying themselves publicly as medical or recreational users, cautioning that individuals who do so are likely to be classified as smokers by the insurance companies, resulting in higher premiums for life insurance policies. Currently, insurance carriers “are more hesitant than ever” to get involved in the industry, because of the dichotomy between the state and federal laws, and the uncertainty of the stance of the new administration towards marijuana. “Product liability is the number one thing keeping most of the carriers out, because they’re just not sure how to quantify the risk.”

Barnosky gave the audience an overview of where the enactment of current law stands, and indicated that a full agency should be appointed by sometime in the spring with everything up and running by mid-2018. In the meantime, the state needs to create an infrastructure to make, create and enforce the laws, similar to the Alcoholic Beverage Control Commission, he said, but little has been settled.

On the investment side, Gormley says the profile “has changed dramatically in the last 18 months.” Whereas investment came primarily from within the cultivation community in early stages of legalization for both medical and recreational use, high net worth investors began getting involved following the key legislative changes such as the Rohrabacher/Farr amendment. Around 2015, the industry was seeing dollars from family offices, and last summer, following key judicial wins for the cannabis industry, private equity firms, hedge fund operators and venture capitalists are now in the game.

Flynn advised both multifamily and commercial property owners to develop and implement marijuana policies that not only address issues of medical and recreational uses, but also for

tenants that wish to grow marijuana on the properties. Aside from the increase in utility usage that property owners would see with the onsite cultivation of marijuana, there are additional issues such as making properties vulnerable to mold and other water-related hazards. “It’s important to think about what type of property you want to have,” advised Flynn.

The New England Real Estate Journal will host Cannabis in Commercial Real Estate 2.0 at the Boston Convention and Exhibition Center on June 14.

For more information and to buy tickets visit: <https://cannabiscre2.eventbrite.com>

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