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CRE Message: Will our industrial buildings go to pot?

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The state of Colorado legalized the private use, possession and cultivation of Cannabis in November of 2012. But beyond the controversy and the headlines, who knew that it would incite a boom in the greater Denver warehouse market? Sensing real opportunity, growers soon began to develop business plans and gather cash from private investors to finance their operations. While many communities across that state do not necessarily allow for the growing of cannabis, where it is legal, the industrial vacancy rate has plummeted. According to a report in the Denver Post in March of 2015, the vacancy rate for warehouse space was 3.1%! Prices for space have quadrupled in some cases with landlords cashing in on apparently insatiable demand from a new group of entrepreneurs.

Ah, but remember, possessing and growing cannabis remains illegal under federal law, even in Colorado, Oregon and Washington where it is legal under state statutes. Banks are prohibited from lending on such business ventures and can't take deposits from "federally" illicit businesses. Lenders cannot fund new construction if the property is going to be leased to a grower. (Attention: brokers and attorneys - What are the actual or perceived risks in advising someone in a venture that may amount to a federal crime? But I digress, that is a whole other issue isn't it.)

Rents for grow space are commonly paid in cash. Tenants are required to invest in vast amounts of lighting, mandated security measures and sophisticated watering systems that add additional costs to what becomes a specialty property in terms of use. Power requirements and temperature controls are keys to a successful growing venture.

What about New England? Massachusetts? Is the tide finally turning nationally in this area? While governor Baker and house speaker DeLeo are both on record as opposing legalizing recreational use in the Bay State, it is likely that a referendum question will be placed on the 2016 ballot.

Bills to tax and regulate cannabis have already been filed in both the House and Senate. Will it come to pass here? Will the legalization gobble up an inventory of otherwise unwanted warehouse space? Is there a market for property leased to cannabis growers?

In the interim, landlords should not be too keen in putting off renewing conventional occupants in hopes of cashing in (literally) on a bull market for grow space. After all, it does seem to take a while to get things done around here doesn't it?

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