

Growth industry

An appraiser talks about how increasing acceptance and legalization of marijuana are changing the real estate landscape

by Cody Gale, MAI

Arriving on site to appraise a large, heavily secured marijuana grow facility can be daunting.

One of my recent projects, a 60,000-square-foot grow facility near Denver, looked on the outside to be a poorly maintained and nearly vacant industrial building, as most grow facilities do. They are purposefully inconspicuous because the owners and operators don't want to attract undue attention.

The giveaway that something was going on at this building was the huge power panel on one side and an excessive number of roof-

mounted cooling and ventilation units.

After showing my ID and gaining entrance through a reinforced steel door, I saw that half the building was outfitted for very sophisticated grow use while the other half remained dilapidated. The grow space was so bright that I had to wear sunglasses to see anything.

Many rooms had the newest lighting, fertilization and HVAC systems. The owners had spent \$1.5 million upgrading the building for the marijuana industry, with electrical upgrades alone — including six power poles required by the local utility company — costing more than \$500,000.

Inside, I felt eyes on me wherever I went — security was ever-present. I saw thousands of plants in different stages of growth, whiteboards with cultivation notes scribbled on them and a list of funny names given to all the rooms.

In a small manufacturing/assembly area, employees worked on marijuana plants as if they were assembling trinkets. A dozen or so people with scissors were sitting at tables and taking the buds off the stems, tossing the trimmed product into giant bins. As I walked past with my camera and clipboard, they stopped and stared; such stares are common whenever I inspect cannabis operations. I've learned to act cool and professional and not to react to anything I see.

Back at the office, I sifted through work files of appraisals I'd performed on like properties, looked through my stockpiled data and analyses, researched new data, and performed calculations — and then more calculations. A few weeks and several hundred pages later, I had a report with four different valuation scenarios and a well-supported opinion of value.

This particular client paid me with a check, which is rare. Typically, I'm paid in cash when I appraise these types of properties. It's amazing how different your appraisal fee feels when



Marijuana grow houses like this one in Denver (above) aim to be inconspicuous. Inside (right), specialty lighting and HVAC systems are essential to growing the product.



TOP PHOTO: HELEN H. RICHARDSON/THE DENVER POST VIA GETTY IMAGES; BOTTOM PHOTO: MASTERFILE

dispensary, including freestanding properties, those in larger retail centers, high-end dispensaries in expensive parts of town, small dispensaries in converted houses, and soon-to-be dispensaries taking over dilapidated properties. I've appraised small and large grow operations, cannabis testing laboratories, and land related to the industry.

High demand

In Denver, cannabis has driven residential and industrial real estate to all-time highs.

The average asking industrial rental rate in Denver rose 48 percent in a little over four years. The vacancy rate dropped from more than 8 percent in 2009 to less than 2 percent in 2015. Similarly, residential real estate throughout the metro area has experienced enormous growth. (Colorado voters passed Amendment 64 legalizing the recreational use of marijuana in 2012, with implementation beginning in 2014.)

Unfortunately, standard industrial users must compete with the cash-heavy marijuana industry for practically all types of space, and the amount of available space is shrinking because of eminent

domain related to light rail expansion, the National Western Stock Show complex and early-stage acquisitions related to expansion of Interstate 70. New construction is up, spurred by a demand for space, a decline in cap rates, and an increase in rental rates and sale prices.

I'm not claiming that the area's high rents and low vacancy are solely the result of the marijuana industry. Other factors include an improved economic climate, high employment rates and population increases. However, cannabis undoubtedly plays a significant role, and Colorado's legalization of marijuana has been a boon to the local and state economies.

What's next? The future remains unclear. Federal regulations could negatively impact the use of marijuana or help stabilize it. The market could dip. However, I see strong demand for the product, so I think the marijuana industry is in its infancy. Its continuing effect on real estate could dramatically bolster the health care, hospitality, entertainment, restaurant and residential sectors, and even grow-related services such as testing, safety and security. ◀



About the Author

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