



Medical Marijuana Facilities

from an appraisal perspective

Presented by:

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A Medical Marijuana Doctor is defined by Arizona Revised Statute as:

12. "Physician" means a doctor of medicine who holds a valid and existing license to practice medicine pursuant to title 32, chapter 13 or its successor, a doctor of osteopathic medicine who holds a valid and existing license to practice osteopathic medicine pursuant to title 32, chapter 17 or its successor,





a naturopathic physician who holds a valid and existing license to practice naturopathic medicine pursuant to title 32, chapter 14 or its successor or a homeopathic physician who holds a valid and existing license to practice homeopathic medicine pursuant to title 32, chapter 29 or its successor.



“Cultivation Site” means the one additional location where marijuana may be cultivated, infused, or prepared for sale by and for a dispensary.





“Enclosed area” when used in conjunction with “enclosed, locked facility” means outdoor space surrounded by solid, 10-foot walls, constructed of metal, concrete, or stone that prevent any viewing of the marijuana plants, and a 1-inch thick metal gate.





Introduction to Medical Marijuana Dispensary

Real Property

Real Property

- **“Appraisal Problem” or what are we appraising?**
 - “Nonprofit Medical Marijuana Dispensary” Definition
 - Industrial Building Type:
 - *Remodeling and build out example*
 - *Misc. Remodeling Photos*
 - Additional Building Type(s):
- **Valuation Approaches:**
 - Cost Approach
 - Sales Comparison Approach
 - Income Approach
 - Summary



Dispensary

- **A.R.S. 36-2801(11):**
 - "Nonprofit medical marijuana dispensary" means a not-for-profit entity that acquires, possesses, cultivates, manufactures, delivers, transfers, transports, supplies, sells or dispenses marijuana or related supplies and educational materials to cardholders. A nonprofit medical marijuana dispensary may receive payment for all expenses incurred in its operation.



Industrial Building Type Overview

- **1950's thru 1980's year built**
- **Concrete block construction**
- **Single tenant warehouse to 4 tenant flex warehouse**
- **9,000 sf to 35,000 sf in size**
- **Other consistent construction features:**
 - 9'-16' ceiling height
 - Basic fenestration few windows
 - Minimal improvement entrances





Maricopa County

16,500 Industrial Building





Example #1 Remodel Tracking

Pre remodel front view 2013





Example: Remodel Tracking

Pre remodel aerial 2013





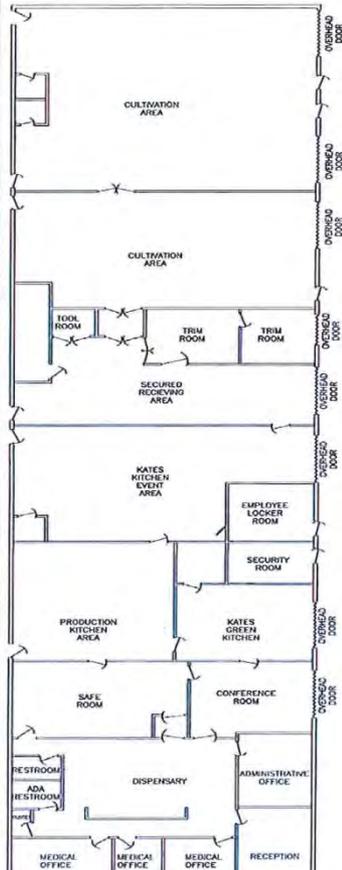
**Remodel: Permits Dated 9/2012-2/2013
Totaling \$250,000**

Single Building Remodel (9,500 sf) , Upgraded Electrical, New Roof Cover, New A/C's, Interior Buildout, Fire Sprinklers



2620 W. ENCANTO BLVD.
PHOENIX, AZ

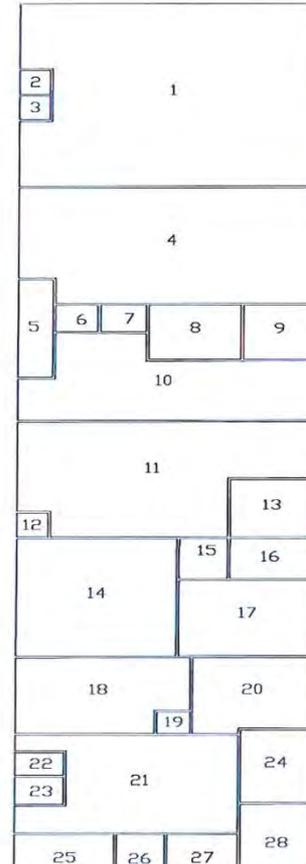
SHEET 1 OF 2



TOTAL BUILDING AREA
9,599 SQ. FT.

- ROOM # 1
AREA: 1,858 SQ. FT.
- ROOM # 2
AREA: 25 SQ. FT.
- ROOM # 3
AREA: 25 SQ. FT.
- ROOM # 4
AREA: 1,172 SQ. FT.
- ROOM # 5
AREA: 118 SQ. FT.
- ROOM # 6
AREA: 39 SQ. FT.
- ROOM # 7
AREA: 42 SQ. FT.
- ROOM # 8
AREA: 177 SQ. FT.
- ROOM # 9
AREA: 139 SQ. FT.
- ROOM # 10
AREA: 682 SQ. FT.
- ROOM # 11
AREA: 994 SQ. FT.
- ROOM # 12
AREA: 28 SQ. FT.
- ROOM # 13
AREA: 170 SQ. FT.
- ROOM # 14
AREA: 657 SQ. FT.
- ROOM # 15
AREA: 68 SQ. FT.
- ROOM # 16
AREA: 119 SQ. FT.
- ROOM # 17
AREA: 358 SQ. FT.
- ROOM # 18
AREA: 132 SQ. FT.
- ROOM # 19
AREA: 25 SQ. FT.
- ROOM # 20
AREA: 308 SQ. FT.
- ROOM # 21
AREA: 660 SQ. FT.
- ROOM # 22
AREA: 30 SQ. FT.
- ROOM # 23
AREA: 48 SQ. FT.
- ROOM # 24
AREA: 184 SQ. FT.
- ROOM # 25
AREA: 195 SQ. FT.
- ROOM # 26
AREA: 94 SQ. FT.
- ROOM # 27
AREA: 139 SQ. FT.
- ROOM # 28
AREA: 220 SQ. FT.

14043 N. 24th AVENUE
PHOENIX, AZ 85023
602-576-1322



Subject Listing

Floorplan



2620 W Encanto Blvd

Phoenix, Arizona

FOR SALE OR LEASE

Green Lined Approval for
Medical Marijuana Dispensary
and Cultivation*



Property Features

- 19,500 SF (7 Unit) multi-tenant industrial building
- Fenced parcel, secured yard
- A-1 Zoning
- Ideal for owner user
- Designed for the small industrial users
- Recently updated

Location Features

- Two (2) miles from I-17 and I-10 Freeways
- Located between McDowell Rd and Thomas Rd off of 27th Ave

FOR SALE: \$900,000 (\$94.73/SF)

FOR LEASE: NEGOTIABLE

*DISCLOSURE Marijuana is an illegal substance under the Federal Controlled Substances Act and Federal law enforcement may prosecute people engaged in the manufacture, distribution, possession and/or marketing of marijuana, despite the passage of the AZ Medical Marijuana Act. The real estate Brokers in this transaction are not experts, and make no representations concerning the legal liabilities that could be realized as a result of this contemplated sale or lease transaction. Any party contemplating the purchase or lease of this property for the purpose to grow, distribute, possess and/or market marijuana, is solely responsible for conducting all due diligence necessary to ascertain the application of the Arizona law and the ADHS rules AND the parties should consult their legal counsel concerning any use that may be in conflict with State or Federal narcotics laws.

NAI Horizon

Commercial Real Estate Services, Worldwide. www.naihorizon.com

contact information:

Mark Wilcke
Senior Vice President
602 852 3454 direct
602 808 3970 direct fax

Subject Listing \$900,000 (94.73 sf)

Single Parcel and Building



This property is the perfect location for a full service Dispensary, Cultivation and infusion Medical Marijuana facility.

The site is zoned A-1 and meets Phoenix Zoning Ordinances. Zoning ordinance specifies that the exterior building walls of the facility shall not be located within the following:

- 250 feet of residually zoned district
- 1,320 feet of a preschool, kindergarten, elementary school, secondary school or high school, public parks or community center
- 500 feet of a public place of worship

This property has been green lined and we were granted the zoning approval.

Features

Total sq footage 9,595

832 sq ft of medical/office space with a clear separation from dispensary/retail space (state requirement)

660 sq ft of dispensary/retail space

432 sq ft of a secured safe/ prep room (state requirement)

657 sq ft potential production kitchen

994 sq ft of event space

682 sq ft secured receiving dock (state requirement)

3346 total sq ft of cultivation space that is separated out to support vegetation/flowering and isolation room

1992 of general office space

There is also a gardening storage area and a wash area that includes a shower and room for a stackable washer and dryer.

Appendix: B Surveyors lay out

Security is one of the most important aspects of the dispensary center.

The facility itself is designed with a secondary secured (barb wired can be added for even stronger deterrence) fence that can be manned by a security guard that will ensure that only approved personnel can access the Cultivation area.

There is an office space for an armed security guard (state requirement)

And a private secured employee entrance.

Inside the building there is a key pad coded locked door that restricts non cultivation employees from accessing area as well.

Adequate exterior lighting is set on a timer system to automatically turn on at dusk.

Cameras located both inside and outside of the facility,

High Resolution Color Security Cameras 960FPS Realtime @ D1 Resolution ran by a 1 TB hard drive and 150-day DVD recorder installed in each room (exception of Restrooms) and around the outside of structure with day and night vision capabilities with adjustable 3.5mm to 8mm lens. (a total of 32 cameras) They are prominently displayed throughout the business to deter theft and to ensure the safety of all who enter the facility and or grounds.

New phone system installed (including phones). New internet server and cabling installed.

Furniture items including safe and retail display cases are included in this property. (comp Dispensary, Cultivation and infusion lere list will be included the purchase documents)

Subject Listing

Features and Description





**Additional Remodeling after Parcel Combine
Totaling \$435,000**

4,000 sf New Construction, Upgraded Electrical, New Roof Covers, New A/C's, Interior Buildout, Fire Sprinklers



Total Facility Remodeling

\$685,000 Permit Value (\$31 sf)

- **4,000 sf New Construction (Greenhouse, Utility)**
- **Interior Demo/Remodel (buildout)**
- **Fire Sprinklers**
- **Exterior Remodel (Sealing and/or Enclosing non essential building entrances.)**
- **New Roof Cover**
- **Upgraded Electrical**
- **28 New HVAC units (22,165 sf)**



Facility Menu Indications

- **Flowers**
- **Shake**
- **Oils**
 - Possible on site oil extraction equipment
- **Lotions, Balms, and Bath Soaks**
 - Possible on site infusion equipment
- **Edibles**
 - On site kitchen (commercial grade)
 - *Baked Goods*
 - *Gummies*





Miscellaneous Location Remodeling/In Use Photos

Industrial Building

Misc. Industrial Remodeling Photos



Misc. Industrial Remodeling Photos



Misc. Industrial Remodeling Photos



Misc. Remodeling Photos



Misc. Remodeling Photos



Interior In Use



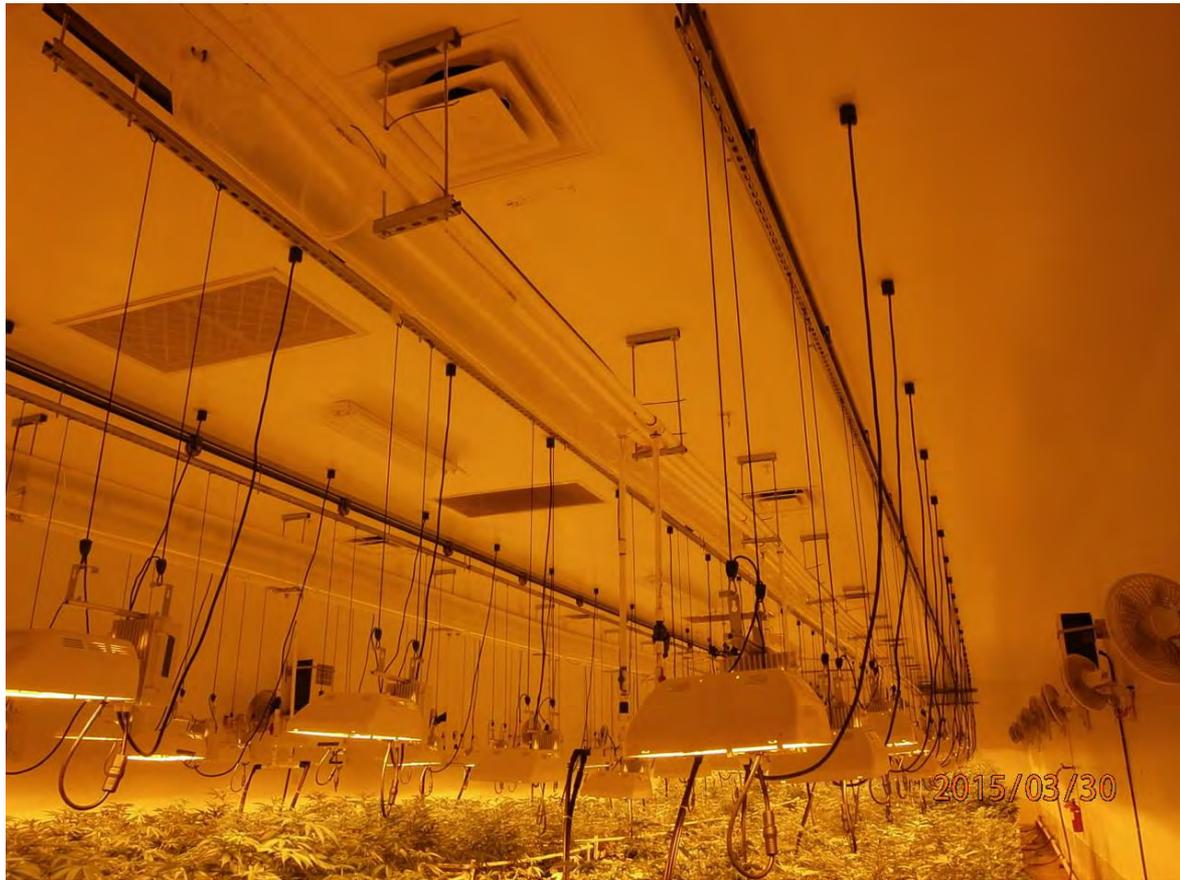
2015/03/30



Interior In Use



Interior In Use



Additional Building Type(s)

- **Office or single tenant retail facilities**
- **1950's thru 2000's year built**
- **Concrete block or stud framing**
- **1,450 sf to 5,000 sf in size**
- **Typically used as dispensary only, no on site cultivation**





Coconino County

10,000 sf warehouse/retail built in 1973





Pima County

2,322 sf freestanding retail built in 1964





Mohave County

3,456 sf freestanding retail built in 1973





Yavapai County

4000 sf office built in 2001





Appraisal

Cost Approach

Cost Approach

Original Structure



Cost Approach

Original Structure

- **Single Tenant Storage Warehouse**
- **Marshall Swift Occ. 406 Rank 2 (Avg.)**
- **16,500 sf**
- **CCI=C (Concrete Block Construction Class)**
- **Average Quality**
- **15' Wall Height**
- **1967 Year Built**
- **21% Build Out**
- **2017 FCV \$393,000 (\$24 sf) (\$135,200 land value)**



Subject Remodeling

5/2014

\$765,000 Permit Value

- Exterior Paint
- New Roof Cover
- Upgraded Electrical and Water
- HVAC
- Interior Demo and New Build Out (Grow rooms, Retail, Safe Room, Offices)
- Sprinklers
- $\$393,000 + \$765,000 = \$1,158,000$ (\$70.18 sf) Invested



Subject Exterior Photos Front View



Exterior Bullet Proof Entrance



Interior Sales Area



Interior Sales Area



Interior Safe Room



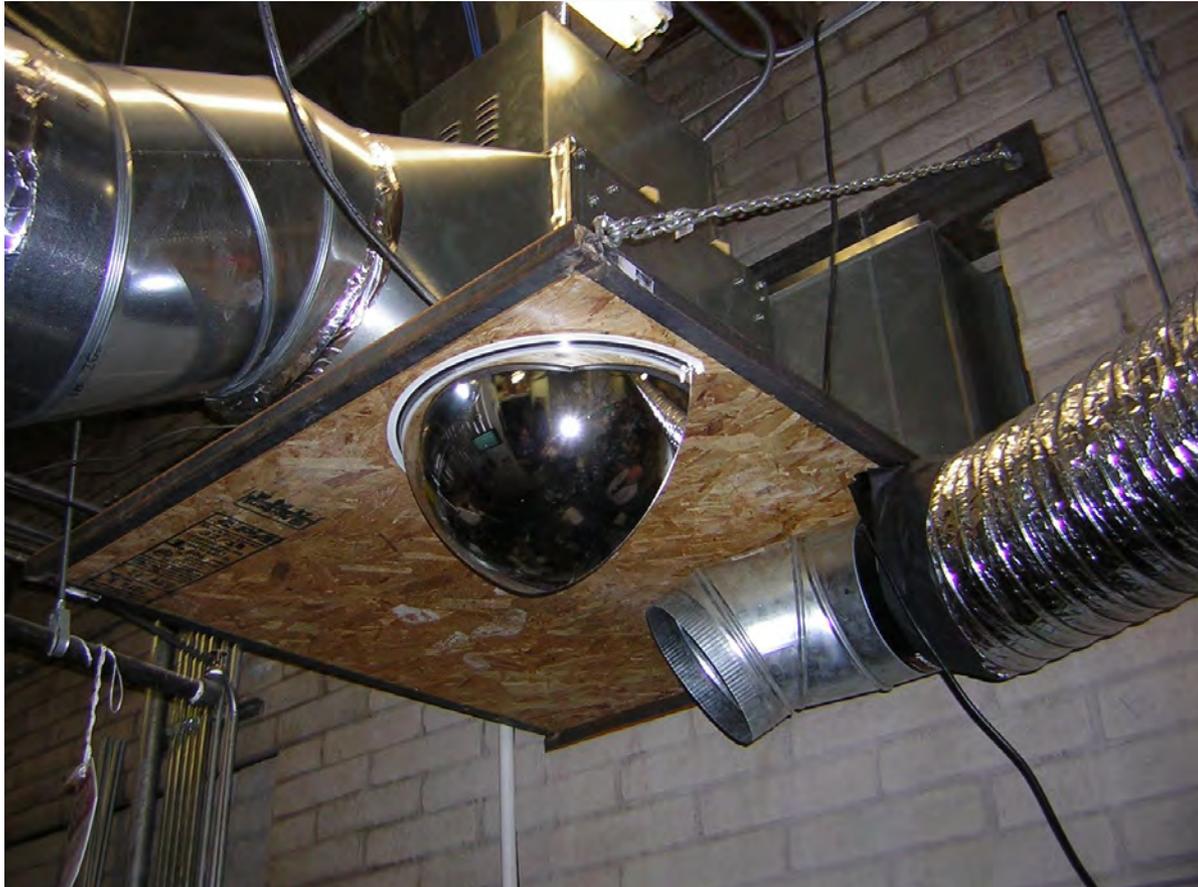
Interior Safe Room



Interior Air Handler



Interior



Interior Grow Room



Interior Grow Room Ceiling



Interior Grow Room



Interior Curing Room



Interior Curing Room



Subject Cost Approach

- **Example #1: Actual Age (1967) with component upgrades only:**

<u>Occ.</u>	<u>Rank</u>	<u>Year</u>	<u>Value</u>
• 406 (WH)	2 (Avg.)	1967	\$495,000 (\$30 sf)
• 406	2.5 (Avg. +)	1967	\$560,000 (\$33.85 sf)
• 406	3 (Good)	1967	\$621,700 (\$37.70 sf)



Subject Cost Approach

- Example #2: Effective Age (1990) with component upgrades:

<u>Occ.</u>	<u>Rank</u>	<u>Year</u>	<u>Value</u>
• 406 (WH)	2 (Avg.)	1990	\$666,500 (\$40.40 sf)
• 406	2.5 (Avg. +)	1990	\$760,000 (\$46.10 sf)
• 406	3 (Good)	1990	\$854,000 (\$51.75 sf)



Subject Cost Approach

- Example #3 Office:
- **Reminder: Per Marshall Swift recommendation, typically a warehouse (406) should be converted to an office occupancy (344) rank 1 when interior build out is 76%-100%.**

<u>Occ.</u>	<u>Rank</u>	<u>Actual Age</u>	<u>Value</u>
• 344 (OFFICE)	1	1967	\$800,000 (\$48.50 sf)
	<u>Rank</u>	<u>Eff. Age</u>	<u>Value</u>
• 344	1	1990	\$983,000 (\$59.60 sf)





Appraisal

Comparable Sales Approach



Property Features

- ± 9,500 SF (7 Unit) multi-tenant industrial building
- Fenced parcel, secured yard
- A-1 Zoning
- Ideal for owner user
- Designed for the small industrial users
- Recently updated

Location Features

- Two (2) miles from I-17 and I-10 Freeways
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FOR SALE: \$900,000 (\$94.73/SF) FOR LEASE: NEGOTIABLE

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9,500 sf remodel listed for \$900,000 (94.73 sf)

2013 FCV \$284,500 + \$250,000 remodeling = \$534,500 (\$56.26 sf)





Appraisal

Income Approach

Income Approach

- The State of Arizona has 88 licensed medical-marijuana dispensaries at the present time, and the Department of Health recently announced that this summer it will begin accepting new applications for dispensary operating certificates. This will be a first since the lottery was held for the initial certificates in 2012. **Leasing to dispensaries can be enticing because landlords can charge premium rents (often 40 to 60 percent higher) due to the inherent risks. Also, some landlords are willing to take these risks because it enables them to fill commercial space that may otherwise be difficult to rent.**

– *Greater Phoenix In Business : Navigating Commercial Leasing to Medical Marijuana Dispensaries, web; July 2016*



Income Approach

- Zoning regulations are just one of many hurdles pot dispensaries have to clear to secure property. Other challenges facing the industry include:
- **The rental practices of cannabis business owners can be especially unorthodox because they typically pay in cash.**
- **The marijuana cultivation process comes with the potential for fires, explosions, mold, and electrical blowouts.**
- **These challenges can drive up the cost of industrial warehouses suitable for growing and processing cannabis as well as retail locations for marijuana dispensaries**
- **In Portland, Maine, broker Susan Scanlon of Commercial Properties Inc. says demand from cannabis businesses has driven basic warehouses leases from \$5 per square foot to between \$8 and \$9. (40% increase)**
- **Leases tend to be triple-net, and tenants commonly make all the improvements themselves because they don't want anyone — even the landlord — to see their proprietary growing processes**

Realtor Mag;web;August 2015



Summary

- **Quantity and Quality of Data:**

- Based on current state of the medical marijuana industry, quantity and quality of data available for use in real property appraisal is limited.
- The Cost Approach to value (used by all 15 AZ counties) currently supports the most reliable data and subsequent value.
 - *Is it Real Property? Or is it Business Personal Property?*
 - Are the HVAC, Electrical, and Water and over improvement (super adequacy)?
 - Is the facility owned or leased?

- **The “appraisal problem” will be greatly effected by the Federal Government:**

- Removing marijuana from “schedule one” list of controlled substances.
 - *Possibly allow FDIC insured banks to get involved.*
 - Changes investor opportunity
 - Open up “Market” sales and leasing of marijuana facilities.





Medical Marijuana Facilities

Personal Property

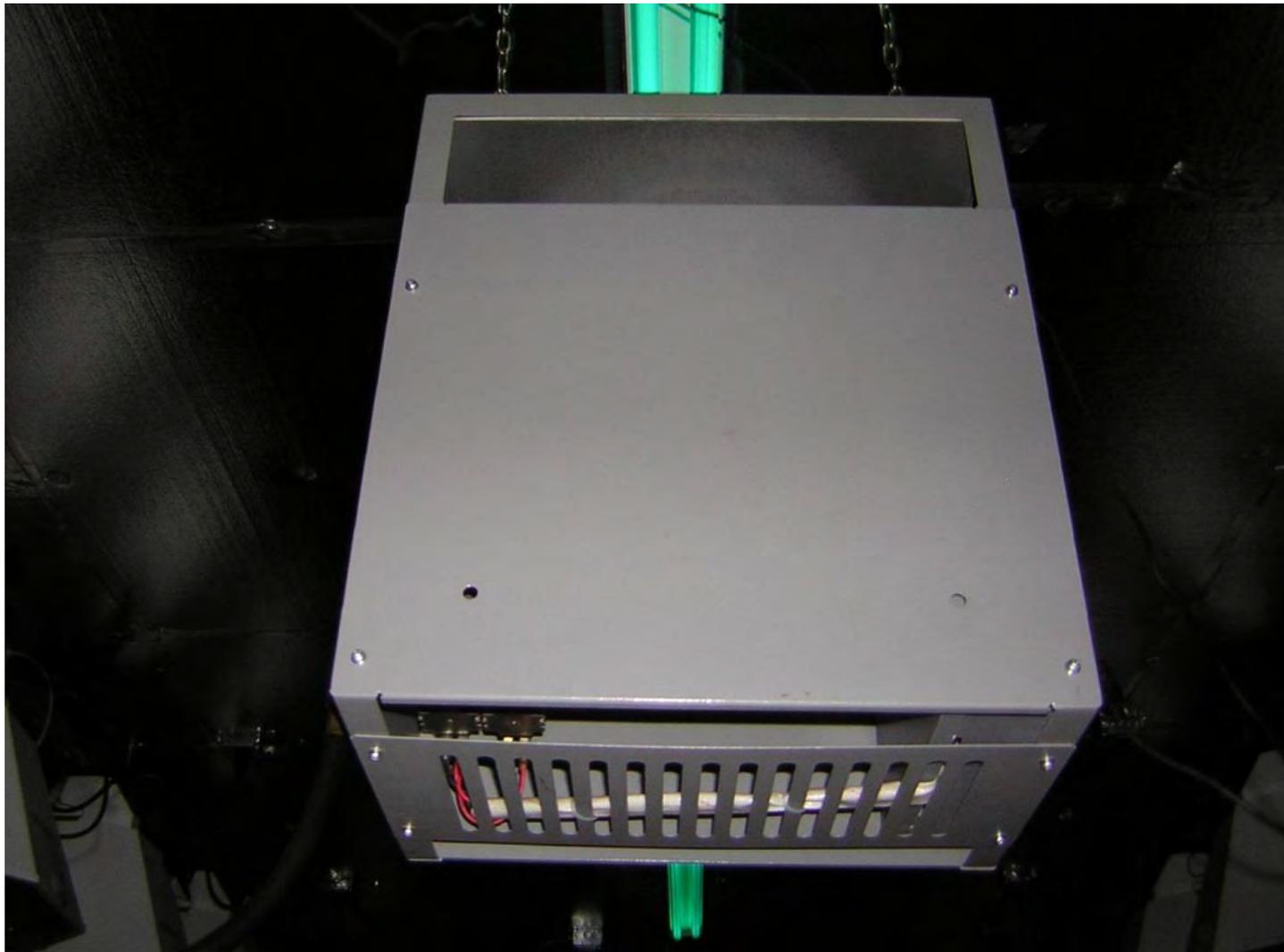
Marijuana cultivation requires strict environmental controls. Light, temperature, nutrients levels, air circulation and CO2 levels all must be maintained.

The plants emit a distinctive odor; therefore complex filtration systems are necessary – carbon filters or ozone generators must be installed.









Close up of CO₂ burner



Temperatures and other grow conditions vary between the plants life stages – drying and curing requires a completely different environment than the warm, humid conditions required during the growth phase.

Multiple rooms/buildings/pods make this kind of environmental control possible



Multiple rooms and/or buildings will normally be considered real property; a facility may choose to use grow pods commercially available or repurpose shipping containers.

These pods are independent of the building and should be considered personal property.



Standard Models

Nursery



20' or 40' long, 8' wide, 9.5' tall

20': \$21,900+, 40': \$39,900+

[INCLUDED COMPONENTS](#)

Production



20' or 40' long, 8' wide, 9.5' tall

20': \$24,900+, 40': \$43,900+

[INCLUDED COMPONENTS](#)

Dry



20' or 40' long, 8' wide, 9.5' tall

20': \$18,900+, 40': \$28,900+

[INCLUDED COMPONENTS](#)

\$ 21,900 complete Nursery set up

- ✦ Modified Steel Shipping Container
- ✦ Electrical System and Lighting Equipment
- ✦ HVAC Unit and Air Distribution System
- ✦ Cloning Rack
- ✦ Propagation Workstation

Container \$ 3300 and up



\$ 24,900 production
room includes:

- ✦ Modified Steel Shipping Container
- ✦ Electrical System and Lighting Equipment
- ✦ HVAC Unit and Air Distribution System
- ✦ In/Out Water Hookups
- ✦ Basic Lighting and Equipment Controls



\$ 18,900 drying room

- ✦ Modified Steel Shipping Container
- ✦ Electrical System and Task Lighting
- ✦ HVAC Unit and Air Distribution System
- ✦ Line Dry or Hanging Bag System
- ✦ Dehumidification Control





PHARM
PODS

PHARM
PODS

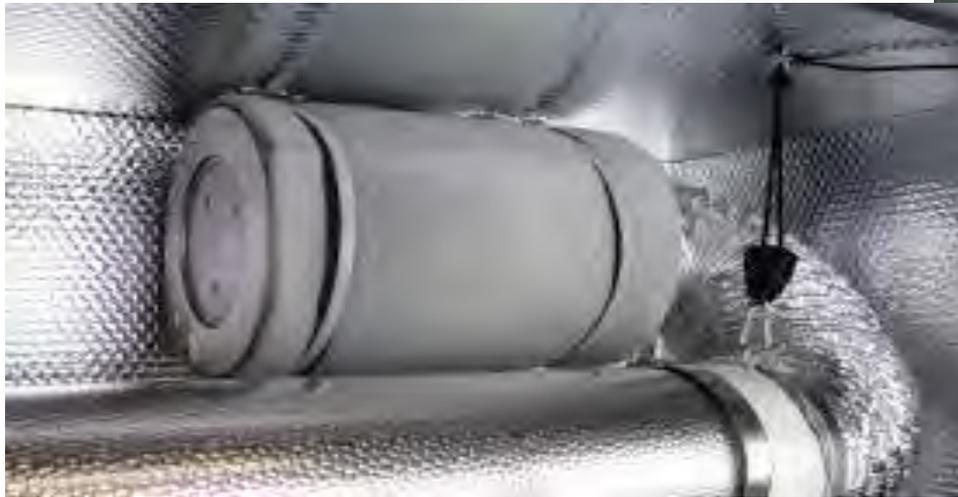
PHARM
PODS





Grow Set Up

- Electrical
- Furniture
- Filtration/Air Exchange/Co2 Management
- Water & Nutrient Systems



Humidifier





Special “green light’ bulbs – used in the curing room



Older hydroponic systems

Ebb & Flood - nutrient solution floods the growing medium and then recedes.

Drip systems – nutrient solution drips onto the growing medium

Aeroponic systems spray roots floating in air w/ solution

Nutrient Film Technique system – aerated water runs through a channel lined with rooting medium

Aquaponics uses recirculated fish water

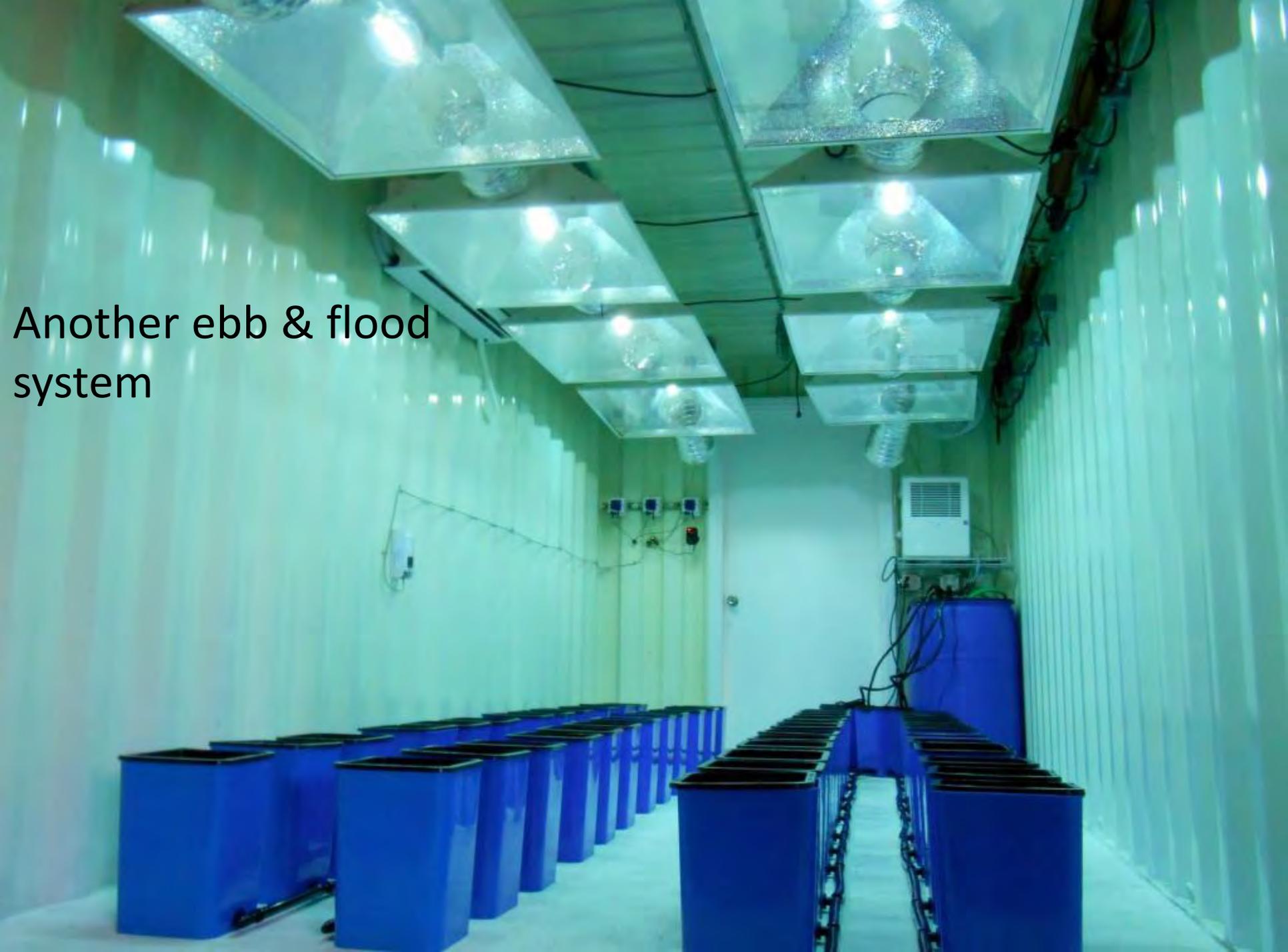




Example of Ebb & Flood setup



Another ebb & flood system





Low cost ebb & flood system

This type of system would be found in extremely small cultivation environments



Drip system



Automatic mixing and feeding for drip system



Reverse Osmosis System





Omega Garden

This configuration holds up to 480 plants



Interior view of rotary hydroponic system



Single unit
with 360 plant
capacity listed
on E-bay at
\$800.





Expanded metal benching - cultivation



The drying process emits especially high odor levels – again filtration systems are necessary

Curing requires a cool, dark place

Ethanol is used to extract cannabinoids from the plants. The resulting tincture can be mixed into food creating edibles

or used to coat candy and make gummies.



Processing

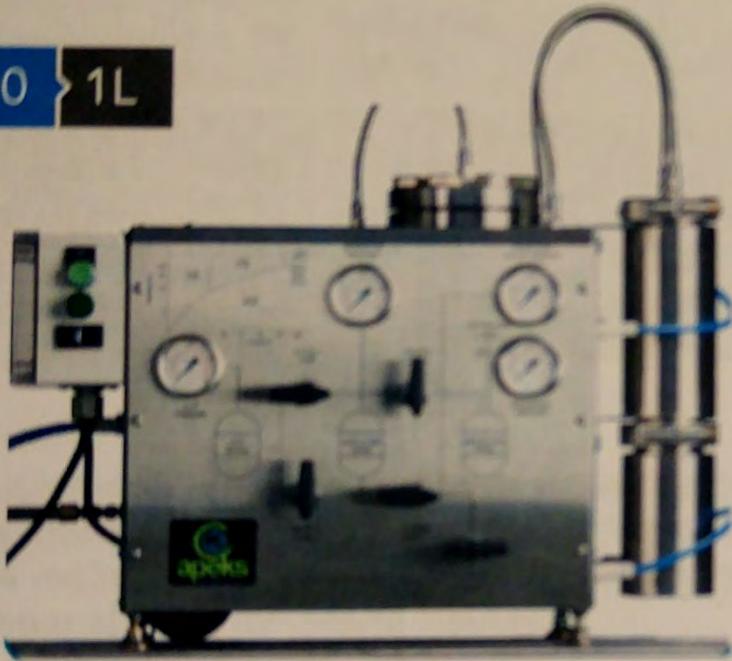
- Cutting
- Chopping
- Processing equipment
- Lab equipment
- Basic commercial kitchen equip
- Extraction equipment (perfume)



- Furniture
- Filtration/Air Exchange Systems



1500 } 1L



The i.1500-1L benchtop is our smallest, most affordable closed loop, recirculating CO2 extraction system — designed specifically for small operations with limited power or space availability.

i.1500-1L \$39,000

Extraction equipment ranges from \$20 on the lowest end up. This model is listed at \$39,000.



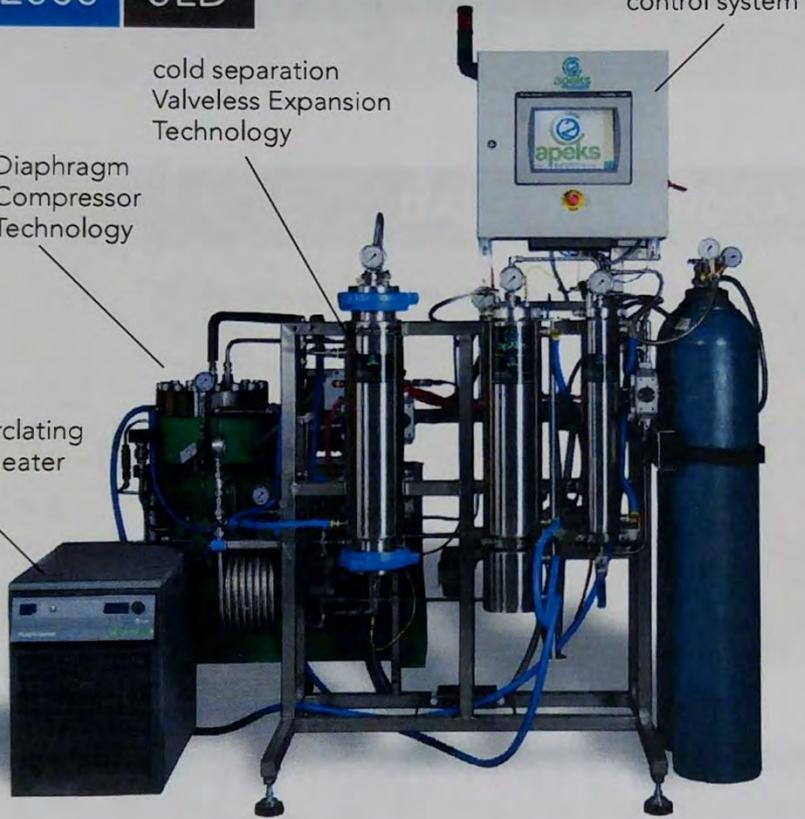
i.2000 5LD

fully automated
control system

cold separation
Valveless Expansion
Technology

Diaphragm
Compressor
Technology

Compact recirculating
water chiller/heater



Like our other energy-efficient 2000-series systems, the i.2000-5LD with the Diaphragm Compressor Technology increases processing efficiency (20 to 50% faster extractions) while consuming just half the power. And it allows for 95% CO2 gas recovery, minimizing operational costs.

i.2000-5LD \$79,000

The top of the line retails for \$ 79,000. If high quality product is used, the ROI is between 35 (smaller model) and 9 days.



Oil Extraction – Step 1



Additional extraction equipment



Vacuum Ovens



Golden Shatter – extracted oil



Lab Equipment





commercial sinks
\$350- \$1000 new

kitchen equipment

Prep tables \$ 150-\$500



Drying

- Racking system
- Air exchange system
- Humidity control



Low cost example
\$20-\$40.

Higher cost version
\$ 50 - \$ 300



Higher cost, newer tech versions

Moving up the range, there are still higher cost options



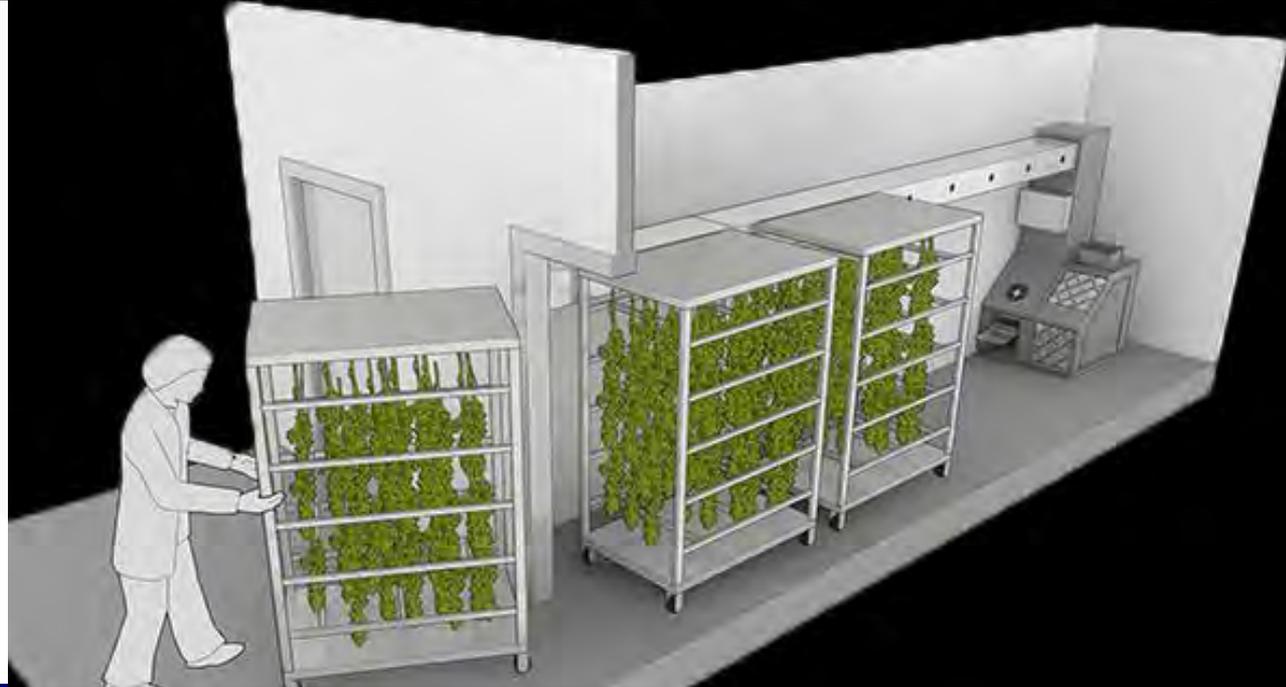
Intelligent Industrial Cannabis Drying Equipment

Provide absolute precision and consistency with intelligent Dry Curve technology that replaces the industry's manual drying methods

Optional mold eradication function (patent-pending) ensures compliance with lab testing



Top of the line automated equipment – approx. \$ 20,000



In General:



Packaging equipment
Labeling equipment
Computer equipment
Office FF&E
Retail FF&E
Cash register
Safe

Security cameras
Electronic lock system
Video printer
Vehicle

Cost ranges between
\$ 5,000 and \$250,000





LIVE RESIN

"It's Alive!"

Total
Cannabinoids

\$25/50	ChemdawgTrainweckTangDream Crumble	Hybrid/50	75.2%
\$25/50	Double Tangle Banana Crumble	Hybrid/S	81.4%
\$25/50	Golden Goat Crumble	Hybrid/S	73.9%
\$25/50	Headtrip Budder	Hybrid/I	72.0%
\$25/50	SnowCap Crumble	Hybrid/S	76.6%
\$25/50	SnowCap Sugar Wax	Hybrid/S	76.6%
\$25/50	Sour Amnesia Crumble	Sativa	73.9%
\$25/50	Sour Banana Sherbet Crumble	Hybrid/50	71.8%





Define the problem

Understand costs attributable to
real and personal property

Capture data accurately

Assign a value

