

Marijuana Industry Driving Up Property Values in Colorado

By Rebecca Helm, Consultant, Denver

Since late 2000, medical marijuana has been legal in the State of Colorado. History was made November 6, 2012, however, when Amendment 64 was passed. The amendment outlined a statewide drug policy for the personal and recreational use of marijuana; and on January 1, 2014, recreational marijuana retail stores officially opened for the first time in Denver. There are talks in Adams County about opening up agriculture land to grow marijuana within greenhouses. There are even talks about building business parks specifically for those in the marijuana industry. This emerging market is expanding to Aurora, Pueblo, Manitou Springs and Canon City later in 2014. Fort Collins recently lifted their ban on marijuana retail sales, and many more jurisdictions are reconsidering their stance on marijuana use properties.

However, the entire State of Colorado is not on board with turning property into marijuana use property. In fact, 33 jurisdictions have opted out of retail marijuana. The state law allows for local licensing authorities to set their own rules and regulations regarding marijuana sales, which includes authorization to outright ban marijuana retail or grow facilities. Even Denver, the pioneer of marijuana grow facilities, has zoning restrictions that state only I-A and I-B zoned properties can be for marijuana grow use. Any commercial or industrial marijuana property cannot be within 1,000 feet of a school, daycare, prison, half-way house or other designated property types. If there are high location restrictions for marijuana businesses, should all property values be influenced by the marijuana industry?

There is an estimated 4.5 million square feet in Denver that is leased to grow and manufacturing marijuana facilities. Landlords ask for three or four times market rent at locations that allow their tenants to grow on the property. Sales of masonry buildings have doubled or tripled in some cases. A forty year old warehouse that may have sold for \$40 per square foot in 2012 is now selling at \$70 or more per square foot. Millions of dollars is entering the real estate market strictly based on the potential of millions (maybe billions) of dollars in earning potential of a marijuana business. However, those millions are only reflective of a small percentage of property locations and should not be used as comparables for all properties.

Colorado will have a reappraisal in 2015 and this controversial issue will be brought to the forefront. There is a 20-30 percent increase in values anticipated for industrial properties based on the influx of sales by the marijuana industry in Denver County. When all three approaches to value are taken into account, property use must be considered. Does a marijuana property have added improvement costs? Are those really personal property, or real property? What is this property's highest and best use? Does zoning need to be considered? Is the income really a reflection of property value or business value?

Keep in mind, marijuana remains illegal by the federal government. The current increase of sales and value may be unrealistic to sustain. Nobody truly knows where this emerging industry is headed, but many real estate professionals agree that marijuana isn't going anywhere. For more conversation regarding the effects the marijuana industry has on property taxes, please contact Rebecca Helm at rhelm@paradigmatax.com or 303-792-3692.