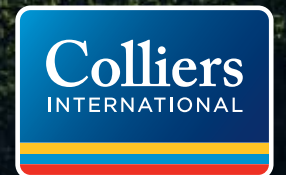


# Cannabis & ALR

Keep the Land  
Cultivate the Future



Accelerating success.



## Keep the land, cultivate the future.

In July this year, Canada's federal government is expected to pass legislation that will legalize and regulate recreational cannabis. While the full impact and effects of this legislation remain unclear, what is certain is that in addition to changing Canadian culture, it will profoundly impact the country's business landscape. Indeed, many businesses – both directly and indirectly linked to cannabis – are already positioning themselves to capitalize on the pending creation of a market that some analysts are estimating will exceed \$5 billion per year in its first year<sup>1</sup>.

The impact on commercial real estate in British Columbia is expected to be profound, and a number of cannabis producers and distributors have already secured, or are in the market for, land or warehouse facilities in anticipation of the new legislation. Recently, a bell-pepper farm in Langley was converted from a produce greenhouse into Canada's largest licensed cannabis facility – spanning almost 2.96 million square feet<sup>2</sup>. In a market such as Metro Vancouver's, where industrial land supply is highly constrained, vacancy is at historic lows, and demand remains exceptionally high – the question of where these facilities can go is paramount.

In response to these market dynamics and land availability constraints, this report examines the potential opportunity for expanding the permitted uses of Agricultural Land Reserve (ALR) to allow for the production of recreational cannabis. Under current legislation, medical cannabis production is allowed on ALR land.

This report further details the opportunity for producers, investors and ALR land owners to position themselves for success in this bold new business landscape.

## The cannabis industry in Canada – just how big is it?

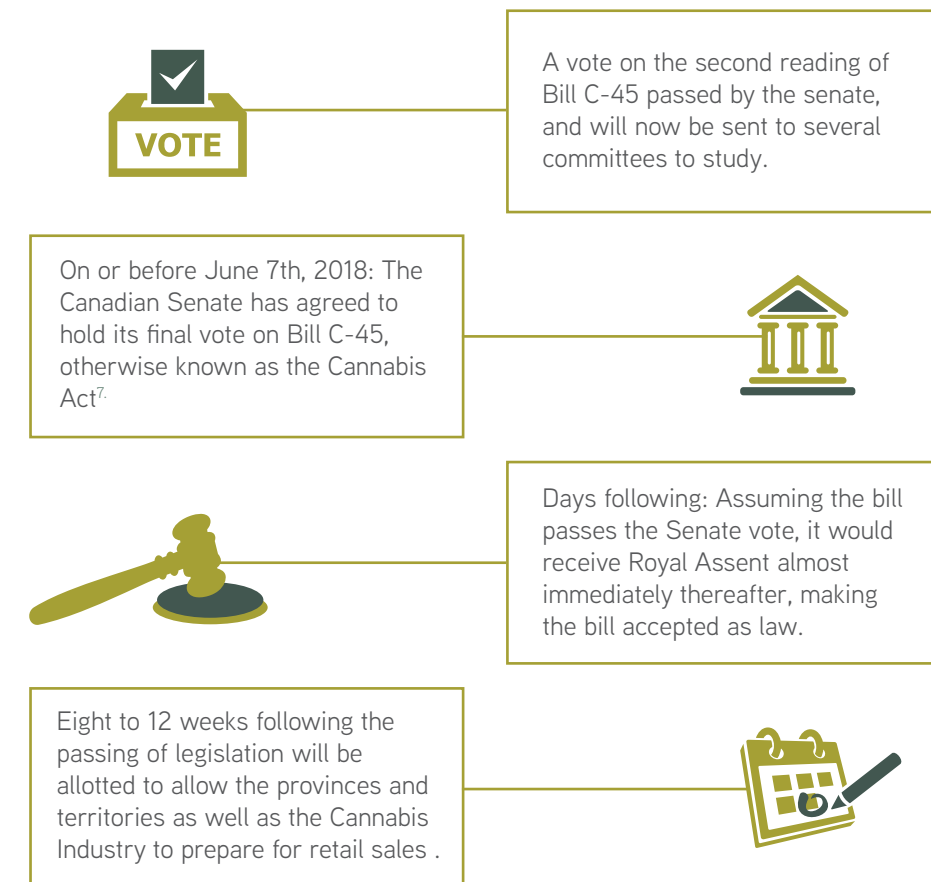
Recent analysis by Deloitte projected the base retail market for recreational cannabis sales in Canada, in its first year of legalization, to be in the range of \$4.9 billion to \$8.7 billion<sup>3</sup>. The report notes that at this upper threshold, the market would be larger than the total Canadian spirit market, and in line with the sales generated by Canadian wine.

When considering the ancillary market of cannabis, such as growers, infused product makers, testing labs and security, the market size estimate grows to between \$12.7 billion to \$22.6 billion within its first five years. Further, Deloitte notes there is still potential upside from tourism revenue, business taxes, license fees and paraphernalia sales, making the total market size potential greater than \$22.6 billion<sup>4</sup>.

Similarly, a CIBC World Markets report projected that federal/provincial governments may reap as much as \$5 billion annually from legalization (assumes a \$10 billion market taxed at 50%) – subject to factors such as a reduction in 'underground' sales<sup>5</sup>.

Notably, the above figures are based on national consumption estimates, but many Canadian companies have global ambitions and are already involved in deals to export and supply cannabis products to other nations. In interviews, representatives of Canopy Growth, Aurora Cannabis, Tilray, Cronos Group, Aphria and MedReleaf all shared global ambitions for the scope of their businesses. Indeed, many companies view that Canada having a 'head start' in the industry is a major advantage in capturing global market share<sup>6</sup>.

## Legalization of cannabis time frame.



<sup>1</sup> Deloitte "Recreational Marijuana - Insights and opportunities" 2016  
<sup>2</sup> <https://www.newswire.ca/news-releases/canopy-growth-obtains-license-for-first-mega-scale-bc-facility-674557093.html>

<sup>3</sup> Deloitte "Recreational Marijuana - Insights and opportunities" 2016  
<sup>4</sup> <http://www.macleans.ca/news/canada/how-big-is-canadas-marijuana-market-really/>  
<sup>5</sup> [http://research.cibcwm.com/economic\\_public/download/ejian16.pdf](http://research.cibcwm.com/economic_public/download/ejian16.pdf)  
<sup>6</sup> [https://newsinteractives.cbc.ca/longform/marijuana-moguls?cnis=97424304-deb9-4229-846e-d8ebae46f4f7\\*C\\*1428\\*0\\*0\\*A](https://newsinteractives.cbc.ca/longform/marijuana-moguls?cnis=97424304-deb9-4229-846e-d8ebae46f4f7*C*1428*0*0*A)

<sup>7</sup> <https://senate-gro.ca/news/senate-cannabis-timetable/>



## Where should cannabis production occur in Metro Vancouver?

Typically, cannabis production facilities locate in industrial buildings or in greenhouses. However, Metro Vancouver's industrial market is experiencing historically low vacancy rates, extremely limited industrial land availability, high land costs, escalating rents and a flourishing film industry that is further impacting the availability of space. To illustrate the current state of Metro Vancouver's industrial market, one may look to the 250 acre Campbell Heights North Business Park in Surrey. In 2011, parcels in Campbell Heights North were selling for approximately \$600,000 per acre, since then prices have continued to climb until the park effectively sold out in 2017, well in advance of the expected 10-year absorption rate. A November 2017 resale of a 1.72-acre site in Campbell Heights North sold for \$1,850,000 per acre<sup>9</sup> - a 208% increase in six years.

Given the existing dynamics of the Metro Vancouver Industrial Market, utilizing greenhouses on portions of the least arable Agricultural Land Reserve (ALR) land provides a viable alternative to industrial land for cannabis production operations for the following reasons:

**1 It allows BC to benefit fully from both existing industry and new cannabis production:** Traditional industrial users can contribute to the economy on industrial zoned lands (the only lands available to them) without having to compete for space with the cannabis industry. At the same time, the cannabis industry would be able to contribute to the growth of the economy without infringing on the limited supply of industrial land. If both traditional industrial users and the cannabis Industry were competing for industrial space, British Columbia could lose out on economic benefits.

**2 Cost reduction and environmental benefits:** Operational costs are substantially lower for cannabis production operations in greenhouses when compared to that of industrial warehouses – reducing costs and benefiting the environment<sup>9</sup>. In addition, building a greenhouse is considerably more affordable than the construction of an industrial building of the same size.

**3 Increased flexibility for ALR owners:** Not all agricultural land is the same, and not all land is capable of, or suitable for, producing all agricultural products. By allowing an additional crop to be produced in greenhouse facilities on ALR land, these landowners and farmers have an additional opportunity to produce a product from their existing land. Furthermore, use of ALR in Metro Vancouver for recreational cannabis production would provide ALR landowners with new opportunities to partner with producers, to expand or change production, or to capitalize on what would certainly be increased demand for their real estate.

**4 Increased flexibility for producers:** From both a pricing and availability standpoint, ALR land would provide a highly attractive alternative for producers given Metro Vancouver's exceptional tight industrial vacancy (currently at a historical record low of 1.9%) and the relative affordability of ALR land to industrial.

**5 Lower cost of entry into the commercial real estate market for investors:** Given the relative cost of ALR land compared with industrial land – there are significantly lower barriers of entry into the market for investors seeking income producing assets. As a result, Colliers anticipates further acquisition activity from smaller investors who have previously been 'priced out' of commercial real estate markets.

## Market snapshot

	ALR LAND**		INDUSTRIAL LAND**	
	Avg. Price per Acre	Number of Sales***	Avg. Price per Acre	Number of Sales***
0 to 5 acres	Not included*		\$1,534,304	98
5 to 10 acres	\$279,022	153	\$1,001,986	14
10 to 20 acres	\$181,340	88	\$805,303	5
20 to 40 acres	\$128,880	50	\$413,933	4
40 to 80 acres	\$94,119	16	-	0

<b>Market Size:</b>	148,204ha (land)	201,300 SF (improved industrial space) 11,331ha (industrial land - 2,261ha vacant****)
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<b>Vacancy rate</b>	Not applicable	1.9% as of Q4 2017
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All rates and figures are approximate only  
 \*Many ALR land sales less than 5 acres are bought with homes on them which skew the value, so they were excluded  
 \*\*Vancouver and North Vancouver were not included as they were outside the areas where there is significant ALR land and have exceptionally high land costs due to lack of supply and densification of sites.  
 \*\*\*From March 1, 2017 to March 12, 2018  
 \*\*\*\* Metro Vancouver 2015 Industrial Lands Inventory: Technical Report

Under current legislation, medical cannabis production (ACMPR License) is allowed as an outright use on ALR land. With the pending Cannabis Bill C-45, there is the potential for the existing permissible use to be extended to the production of recreational cannabis. At this time it is possible, but uncertain whether government is considering extending recreational cannabis the same broad support it has provided for medicinal cannabis. Given the reasons outlined above, there is a potential opportunity for the cannabis industry in British Columbia, as well as an opportunity for ALR landowners should an amendment be made to the existing legislation.

<sup>9</sup> <https://renx.ca/vancouver-industrial-land-shortage-price-spike/>

<sup>9</sup> <https://www.ctvnews.ca/politics/ottawa-urged-to-consider-environmental-impacts-of-legal-marijuana-1.3750799>

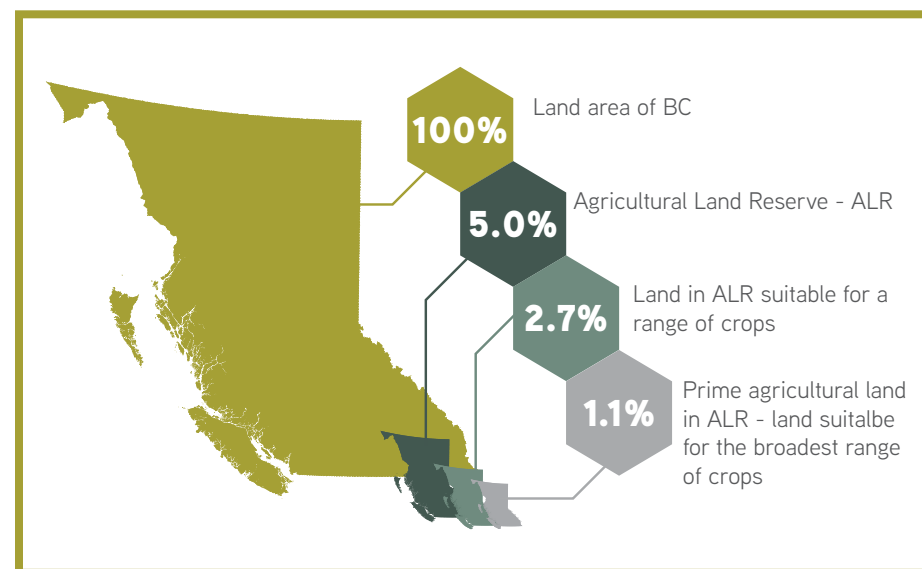


### Spotlight on the ALR.

#### What exactly is the Agricultural Land Reserve (ALR)?

The Agricultural Land Reserve (ALR) comprises 5% of British Columbia's total land mass. Enacted in 1973 by the Provincial government, the ALR is a mechanism aimed to protect land that has been designated for agricultural activities and to produce agricultural goods. The purposes of the Agricultural Land Commission (ALC) as set out in Section 6 of the Agricultural Land Commission Act are:

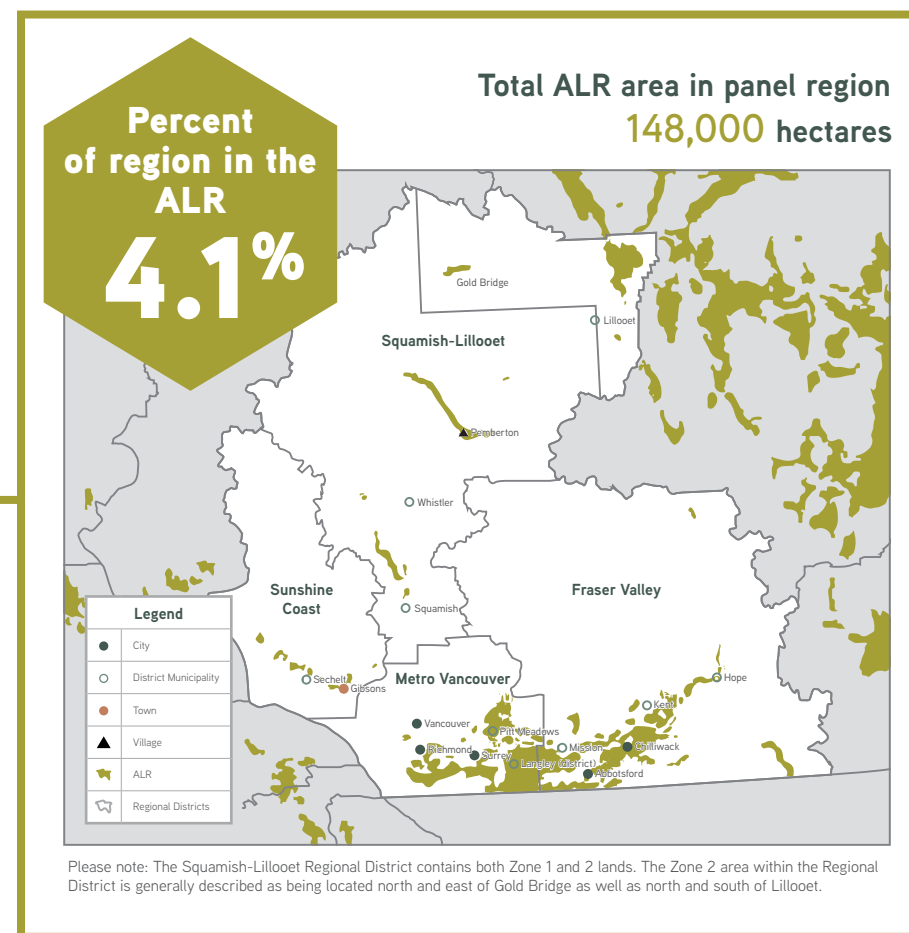
- A) to preserve agricultural land;
- B) to encourage farming in collaboration with other communities of interest; and
- C) to encourage local governments, First Nations, the government and its agents to enable and accommodate farm use of agricultural land and uses compatible with agriculture in their plans, bylaws and policies.



Source: [https://www.alc.gov.bc.ca/assets/alc/assets/library/commission-reports/annual\\_report\\_2016-2017.pdf](https://www.alc.gov.bc.ca/assets/alc/assets/library/commission-reports/annual_report_2016-2017.pdf)

#### ALR land in Metro Vancouver and the Fraser Valley.

Metro Vancouver and the Fraser Valley are located within in the South Coast Panel Region of the ALR. The South Coast Panel Region has 148,204 hectares in the ALR, which comprises 3% of the total ALR land in British Columbia (total ALR area in BC is 4,615,849 hectares). The South Coast Panel Region also includes the Sunshine Coast and Squamish-Lillooet regions.



Source: [https://www.alc.gov.bc.ca/assets/alc/assets/library/commission-reports/annual\\_report\\_2016-2017.pdf](https://www.alc.gov.bc.ca/assets/alc/assets/library/commission-reports/annual_report_2016-2017.pdf)

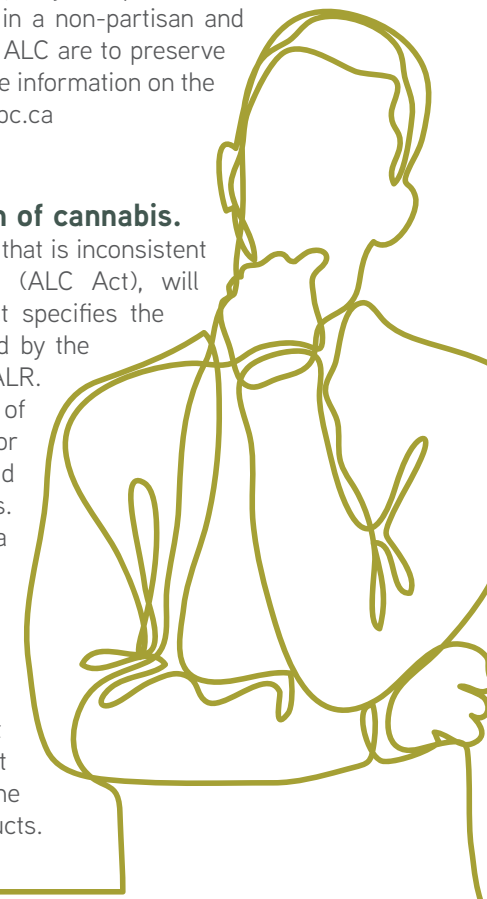
#### What is the Agricultural Land Commission (ALC)?

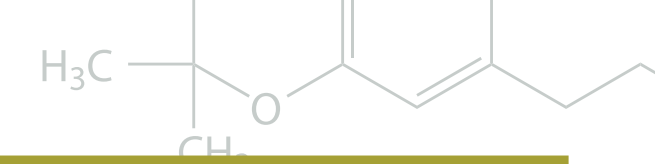
The Agricultural Land Commission (ALC) is an independent administrative tribunal that governs the decision-making process for the management of the ALR. The ALC functions as an autonomous provincial agency independent of the provincial government and is mandated to act in a non-partisan and impartial manner. The primary purposes of the ALC are to preserve agricultural land, and to encourage farming. More information on the ALC and ALR may be obtained at [www.alc.gov.bc.ca](http://www.alc.gov.bc.ca)

#### Municipalities, the ALR and production of cannabis.

Ultimately, any bylaw that a municipality enacts that is inconsistent with the Agricultural Land Commission Act (ALC Act), will be superseded by the ALC Act. The ALC Act specifies the regulations in place for the ALR as determined by the ALC, including what uses are permitted in the ALR. Currently, the ALC Act permits the production of marijuana, in accordance with the Marijuana for Medical Purposes Regulations, in the ALR and also permits the construction of greenhouses. Currently ALR legislation does not have a provision for recreational cannabis production.

In addition the ALC Act and regulation permits processing of agricultural products grown on a farm, provided 50% of the processing inputs are grown on the farm. As such a limited amount of value added processing is permitted without the need to approach the ALC for permission. The exception would be cannabis infused food products.





### Where to next for cannabis producers, investors & ALR owners?

The proposed federal Cannabis Act legislation is creating opportunities for ALR landowners. A significant number of cannabis producers, from local boutique companies through to global players, are actively reviewing the opportunity that ALR land presents as an attractive alternative to industrial facilities, and are positioning themselves to capitalize on a potential alteration to the ALC Act to allow for recreational cannabis production, should it occur.

Within Metro Vancouver, there have already been several high profile joint ventures between land owners and producers, as well as significant acquisitions of ALR land. Detailed below are several recent examples.

Owners	Private or Public	Joint Venture	Production Facility Ownership	Location	Greenhouse Size (ft2)	Building Status	ALR Land	Cultivation License
BC Tweed (Canopy Growth and undisclosed large-scale greenhouse operator Partner)	Public (TSX)	Yes - Canopy Growth has a 66.6% interest in BC Tweed	Lease from Partner affiliate with option to acquire	Langley	1,300,000	Built	Yes	Yes
BC Tweed (Canopy Growth and undisclosed large-scale greenhouse operator Partner)	Public (TSX)	Yes - Canopy Growth has a 66.6% interest in BC Tweed	Lease from Partner affiliate with option to acquire	BC - unspecified	1,700,000	Existing Greenhouse - not yet converted to cannabis production	Unknown	No
Village Farms International and Emerald Health Therapeutics, Inc.	Public (TSX)	Yes - 50% ownership stake for Village Farms, 50% for Emerald Health	Village Farms provided the greenhouse and Emerald Health provided \$20M; 50/50 ownership stake	Delta	1,100,000	Built	Yes	Yes
Village Farms International and Emerald Health Therapeutics, Inc.	Public (TSX)	Yes - 50% ownership stake for Village Farms, 50% for Emerald Health	JV has option to lease or purchase	Delta	1,100,000	Existing Greenhouse - not yet converted to cannabis production	Yes	No
Village Farms International and Emerald Health Therapeutics, Inc.	Public (TSX)	Yes - 50% ownership stake for Village Farms, 50% for Emerald Health	JV has option to lease or purchase	Delta	2,600,000	Existing Greenhouse - not yet converted to cannabis production	Yes	No
Tantalus Labs	Private	No	Private - direct acquisition	Maple Ridge	50,000 + 25,000 SF of production space	Built	Yes	Yes
Tantalus Labs	Private	No	Private - direct acquisition	Maple Ridge	50,000	Expansion on existing greenhouse site - plans to start construction next year	Yes	Yes

In addition to these examples, Colliers International is working with a number of established medical cannabis (ACMPR) producers (ranging from local boutiques to larger corporations) and recreational licensed producers (LP) on their real estate strategies. Based on these discussions, Colliers expects further joint venture, lease and acquisition activity in Greater Vancouver's ALR market over the coming months. Colliers expects increased investment activity at all levels, from smaller private investors attracted by the lower cost of entry into the market, through to the globally significant firms looking to expand and consolidate their position.

In short, for ALR landowners, there may now be a prime opportunity to capitalize on the future legalization of the recreational cannabis industry.



## The Colliers National Cannabis Platform.

Colliers International is committed to working with its clients to effectively and responsibly navigate Canada's bold new world of legalized cannabis with respect to their real estate strategy and assets. This commitment is matched by our unsurpassed understanding of real estate markets and drivers, as well as our focus on maintaining the strongest possible understanding of the rapidly changing cannabis landscape, to best position our clients for success.

Our multi-disciplinary National Platform team ensures that our clients benefit from the full expertise and knowledge of Colliers International professionals across Canada.

### Track Record:

- Client: confidential | Project management of development of new medical cannabis facility
- Client: confidential | Site selection options analysis for cannabis operation
- Client: confidential | Project management of new medical cannabis greenhouse

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