THROUGH THE SMOKE

THE IMPACT OF THE RECREATIONAL CANNABIS INDUSTRY ON VANCOUVER'S LEASING MARKET

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Oct

Cannabis deals reach US$8B on eve of Canadian legalization

Doug Alexander, Bloomberg News

Cannabis sales to top hard liquor by 2020, but there will be 'many losers'

The bulk of the value generated from this industry will accrue to Canada's provinces, the analysts write

Cannabis retailers warn of supply shortage

By Levon Sevunts | english@rcinet.ca
Thursday 18 October, 2018 , 0 Comments ↓

Cannabis retailers across Canada warned of lingering shortage
legal pot outstrips their retail projections and limited supply.

Cannabis NB sales totalled nearly $945K within 48 hours of legalization

Fredericton and Oromocto stores sold the most, figures show

Bobbi-Jean MacKinnon · CBC News · Posted: Oct 24, 2018 3:41 PM AT | Last Updated: October 24

*“This is the **largest public policy shift in this country** in decades and it’s not something that just happens overnight”*

- Mike Farnworth, Public Safety Minister, British Columbia

PERCEPTION

REALITY

WHAT DOES THIS MEAN FOR OUR INDUSTRY?

PANELISTS

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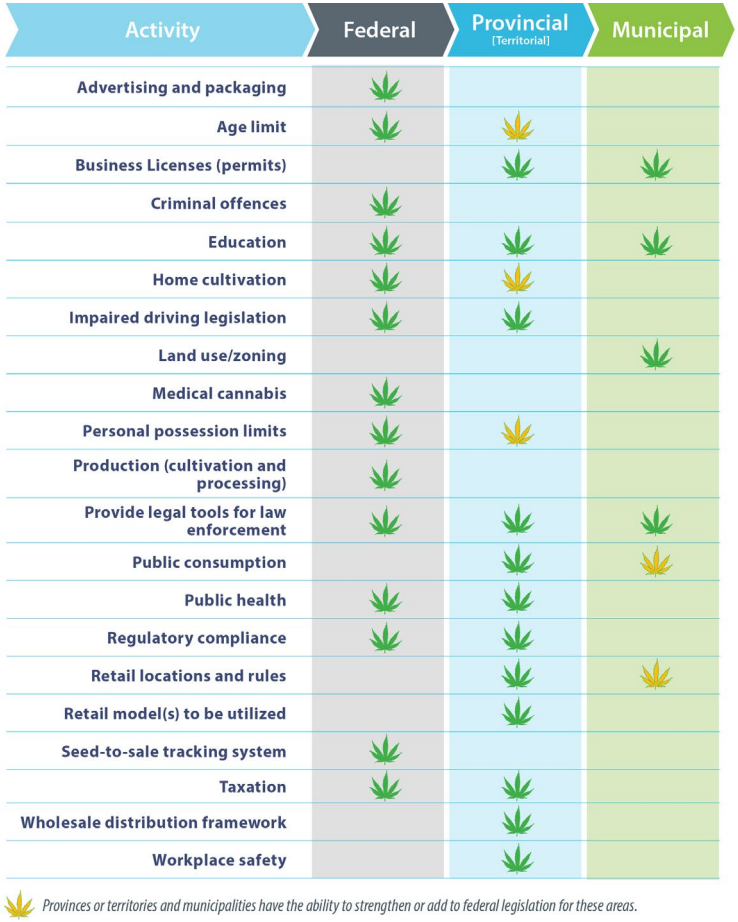
The Federal Government's Objectives

The Government of Canada's decision to legalize and regulate cannabis was driven by three core objectives:

1. Dismantle the illicit market
2. Restrict youth access
3. Ensure public health and safety

Responsibilities



Activity	Federal	Provincial [Territorial]	Municipal
Advertising and packaging	●		
Age limit	●	◐	
Business Licenses (permits)		●	●
Criminal offences	●		
Education	●	●	●
Home cultivation	●	◐	
Impaired driving legislation	●	●	
Land use/zoning			●
Medical cannabis	●		
Personal possession limits	●	◐	
Production (cultivation and processing)	●		
Provide legal tools for law enforcement	●	●	●
Public consumption		●	◐
Public health	●	●	
Regulatory compliance	●	●	
Retail locations and rules		●	◐
Retail model(s) to be utilized		●	
Seed-to-sale tracking system	●		
Taxation	●	●	
Wholesale distribution framework		●	
Workplace safety		●	

◐ *Provinces or territories and municipalities have the ability to strengthen or add to federal legislation for these areas.*

Provincial and Territorial Frameworks

Provincial and Territorial Cannabis Frameworks													
	British Columbia	**Alberta**	**Saskatchewan**	**Manitoba**	**Ontario**	**Quebec**	**Nova Scotia**	**New Brunswick**	**Prince Edward Island**	**Newfounland and Labrador**	**Northwest Territories**	**Yukon**	**Nunavut**
Production	Federally regulated by Health Canada										Federally regulated by Health Canada		
Provincial (Territorial) Regulator	BC Liquor Distribution Branch (LDB)	Alberta Gaming and Liquor Commission (AGLC)	Saskatchewan Liquor and Gaming Authority (SLGA)	Manitoba Liquor and Gaming Authority (MLGA) and MBLL	Current: Liquor Control Board Ontario (LCBO) Future: Alcohol and Gaming Commission of Ontario (AGCO)	Société Québécoise du Cannabis (SQC)	Nova Scotia Liquor Corp. (NSLC)	NB Liquor (NBL)	PEI Liquor Control Commission (PLCC)	Newfoundland Labrador Liquor Corporation (NLC)	NWT Liquor Commission (NWTLC)	Government of Yukon	Nunavut Liquor Commission
Minimum Age	19	18	19	19	19	18	19	19	19	19	19	19	19
Wholesale	Government / LDB	Government / AGLC	Private Sector	Government / MLGA	Current: Government / LCBO Future: Ontario Cannabis Store (OCS)	Government / SQC	Want to buy from NS supplier. Only 2 NS producers licensed, 0 to sell.	Organigram & Canopy to partner with provincial government	Canada's Island Garden, Organigram & Canopy Growth	Government / NLC	Government / NWT LC	Government / YLC	Government of Nunavut
Distribution	Government / LDB	Government / AGLC	Private Sector	Government / MLGA	Government / LCBO	Government / SQC	Government / NSLC	Crown Corp.	Government / PLCC	Government / NLC	Government / NWT LC	Government / YLC	Government of Nunavut
Retail	Mixed public/private model	Private Sector	Private Sector 60 retail permits	Private Sector	Originally to be Government (OCS), however in the process of moving to a private sector model launching April 2019	Government / SQC	Government / NSLC Through existing NSLC stores	Government / NBL (subsidiary) to operate 20 stores in 15 communities	Government 4 retail locations 2018	Private Sector and/or Cannabis NL to retail in areas when there are no other alternatives in area	Government / NWT LC - control (may have private retail - TBD)	Government of Yukon (cannot sell with Alcohol)	Nunavut Liquor Commission (can appoint outside agents) Online sales first, no physical stores in 2018
Online Sales	Government / LDB*	Government / AGLC*	Private Retail Companies with Storefront	Private Sector	Government / LCBO	Government / SQC	Government / NSLC	Government / NBL	Government with next day delivery	Government / NLC	Government / NWT LC - control (may have private retail - TBD)	Government / YLC	Nunavut Liquor Commission
Retail Licensing Process	Online application portal	Online application portal	2 phased process 1) Financial & Reporting Capable 2) Lottery	RFP process	TBD	N/A	N/A	N/A	N/A	RFP process	N/A	N/A	N/A
Provincial (Territorial) Legislation	Bill 17 Bill 30 Bill 31	Bill 26 Bill 29 Bill 6	Bill 112 Bill 121	Bill 11 Bill 25 Bill 26	Bill 174	Bill 157	Bill 108	Bills 16, 17, 18, 19, & 20	Bill 29 Bill 31	Bill 20 Bill 23	Bill 6	Bill 15	Bill 3 Bill 7

Sources: Government of British Columbia, Government of Alberta, Government of Saskatchewan, Government of Manitoba, Government of Ontario, Government of Quebec, Government of Nova Scotia, Government of New Brunswick, Government of Prince Edward Island, Government of Newfoundland and Labrador, Government of Northwest Territories, Government of Yukon, Government of Nunavut

**Provincial government will give consideration to allowing private online sales in the future*

November 2018

A Landlord's Guide to Leasing Space to Non-Medical Cannabis Retail Tenants

Download the full guide on the Canadian Real Estate Forums website

FEDERAL GOVERNMENT REQUIREMENTS

1. Legal age requirements
2. Packaging and labelling requirements for products
3. Restrictions on promotional activities, displays and dispensing
4. Types of products available for sale

PROVINCIAL GOVERNMENT REQUIREMENTS

1. Licensing requirements
2. Selling cannabis products
3. Hours of operation
4. Product Pricing
5. Store naming
6. Storage and handling
7. Store activities
8. Worker requirements
9. Reporting requirements

RETAIL STORE PHYSICAL SPACE REQUIREMENTS

REQUIRED

- Self contained store
- Floor to ceiling walls
- Separate public entrance
- All inventory stored onsite
- Robust security system

RESTRICTED

- Self service of cannabis
- Drive-throughs
- Online sales
- Delivery
- Products visible from outside
- Partnerships with other businesses

MUNICIPAL GOVERNMENT REQUIREMENTS

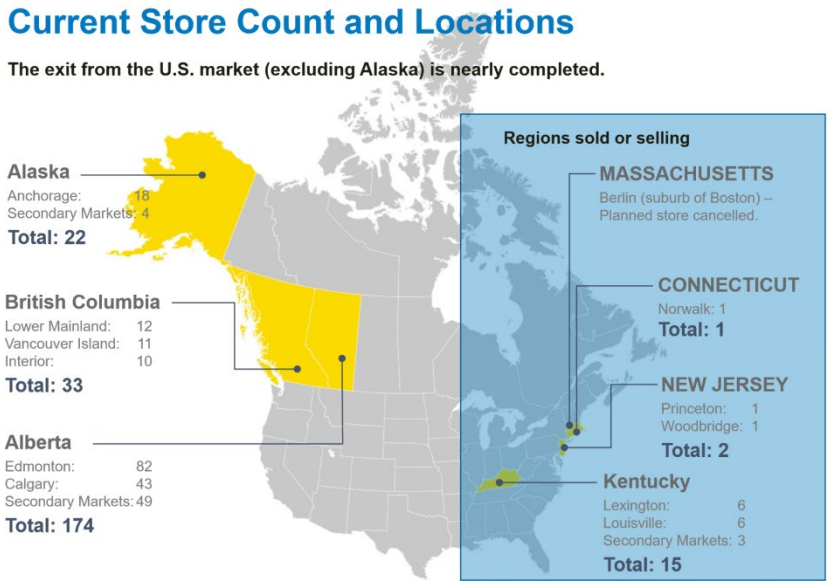
LOCAL GOVERNMENTS…

Can control whether or not a non-medical retailer receives a **provincial licence to operate a retail location** within their jurisdictional area.

May control cannabis retailers through their **local zoning, bylaws and business licencing**.

Request for Qualifications (RFQ) Process

Aurora: Retail Partnership with Alcanna



- Alcanna currently operates a network of 229 retail liquor stores across Western Canada.
- Aurora holds a 25% ownership interest in Alcanna (on a non-diluted basis).
- Alcanna will build, own and operate the new cannabis stores, which will operate under the Aurora name, providing immediate brand recognition
- Alcanna is currently converting several of its existing liquor stores into cannabis retail outlets and is actively securing a new locations across Alberta.
- Where permissable, Alcanna is well-prepared to open a large number of retail stores across Canada.
- In Alberta, Alcanna anticipates opening 37 stores, the maximum number permitted to a single operator under provincial regulations in year one of legalized adult consumer use.
- Leveraging its deep connections with general contractors and trades, Alcanna will mobilize construction teams at approved sites.

Engaging window display

Coated windows reveal a graphic at the right angle.

EXTERIOR, ANGLED

No barriers

No displays between staff & shopper create a friendly space.

INTERIOR LAYOUT

Jilly Bean

Recreational Cannabis Market Size

The BC and Alberta cannabis markets are expected to generate up to $2.7B in sales in 2019, with the legal recreational cannabis market expected to generate up to $1.6B in sales in 2019 across both provinces

	Current Estimated Recreational Market Size (consumption range, '000 kg)	Projected Market Size of Legal Recreational Market (consumption range, '000 kg)	Difference
British Columbia	**$0.25 – 0.54B** (36.2 – 76.5)	**$0.36 – 0.83B** (30.2– 69.3)	**+$110 – 290M**
Alberta	**$0.23 – 0.48B** (32.2 – 68.6)	**$0.33 – 0.80B** (27.5 – 66.6)	**+$100 – 320M**
Total Market:	**$0.48 – $1.02B** (68.4 – 145.1)	**$0.69 – $1.63B** (57.7 – 135.9)	**+$210 – 610M**

Key Observations

- The **overall cannabis market in Alberta and BC combined** is expected to be generate $1.16 - $2.71B in sales in 2019, with the **illicit market** expected to generate $0.29 - $0.66B and the **medicinal market** expected to generate $0.18 - $0.42B
- **Overall spend** through legal channels is expected to increase by up to 69% respectively in comparison to pre-legalization values, driven by incoming *likely users* offsetting the proportion of current users not transitioning to legal channels and *the higher price of cannabis* in legal channels
- The incidence rate of current users is **13%** across BC and Alberta, while the incidence rate of likely users upon legalization is **12%** across both provinces

C9: How much, on average, do you currently pay for recreational cannabis products?
C10: When purchasing and using cannabis products for recreational purposes is legalized later this year, what is your expectation with regards to pricing?
C13: How much, on average, would you be willing to pay for cannabis products purchased through newly legal channels, such as government retail locations, licensed private retail locations or government websites when purchasing and using cannabis products for recreational purposes is legalized later this year?

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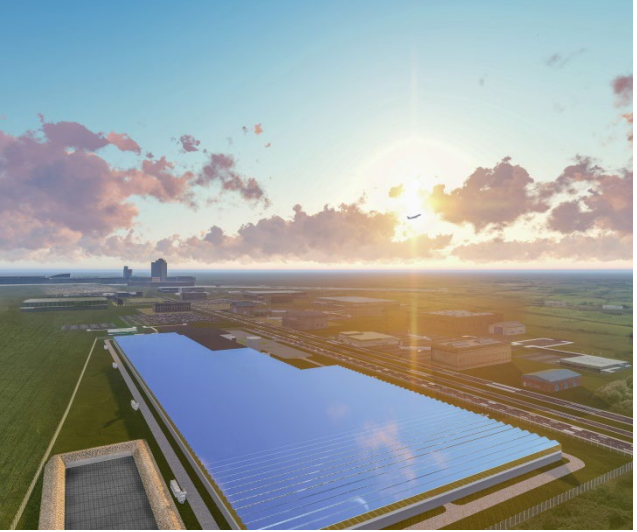
The industrial demand for Cannabis spaces in Metro Vancouver

1. Cultivation License
   - 1. Standard Cultivation
   - 2. Micro Cultivation
2. Processing License
   - 1. Standard Processing
   - 2. Micro Processing
3. Research License

Cannabis Oil Extraction equipment
by Kelowna-based Vitalis Extraction Technology

Machine Specifications

Minimum required floor space: 504 SF
Weight: 8,300 lbs
Power: 3 Phase, 125A
Height: 13 feet



Aurora Sky

- 100,000+ kg per year at full capacity
- Anticipated production costs <$1 per gram
- Closed system
- Highly Automated
- Complete control over environmental conditions
- Customized irrigation and nutrition systems
- Specialty glass
- Advanced disease, pest and plant stress prevention systems
- Strategically located at Edmonton International Airport

Canadian Adult Consumer Use Market

Base Market

Population of Adult Consumers

x

Annual Consumption Volume in Grams per Consumer

x

Price per Gram of Marijuana

= **$9+ bn**

Base Retail Market Value

Ancillary Market

Growers

+

Infused Product Makers

+

Testing Labs

+

Security

= **$9+ bn** + **$14+bn** = **$23 bn**

Base Retail Market Value | With Ancillary Multiplier | Base + Ancillary

Potential Upside

Tourism Revenue

+

Business Taxes

+

License Fees

+

Paraphernalia

= **Potential Upside to Base and Ancillary Markets**

According to Deloitte, sales in the Canadian adult consumer use market could be ~$5bn to ~$9bn per annum

Canada is 3-4 years ahead of any other country in terms of building a federally legal, commercial scale, cannabis cultivation industry

Canadian Medical and Adult Consumer Use Demand will outstrip supply until 2021

Source: Deloitte Recreational Marijuana: Insights and Opportunities