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COVID-19, cannabis and the future of commercial real estate - by Richard Acosta

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As COVID-19 continues to rack the U.S. with unprecedented hospitalization, death and unemployment rates, landlords and real estate investors alike are trying to understand and prepare for the future of commercial real estate.

And while mainstream CRE, especially retail, are temporarily being shut down because of their “non-essential” status, cannabis dispensaries in several states have been deemed “essential” and remain open for business.

California, Florida and Oklahoma, among others, have designated marijuana businesses as "essential." Meanwhile, Massachusetts is facing mounting pressure to allow the state's adult-use marijuana businesses to re-open while medical dispensaries have been deemed "essential."

One thing is clear. The demand for marijuana has only shot up in recent weeks. A survey of 990 marijuana consumers conducted by American Marijuana found that more than 48 percent of customers stocked up on marijuana products amid the pandemic. Of those, over 55 percent said they were stocking up specifically to aid with stress and anxiety.

The sales data backs this up. Cannabis sales across the U.S. have seen a massive increase according to BDS Analytics, with dispensaries seeing double digits, and that is likely to continue after COVID-19 is long gone.

This data tells us two things about cannabis and cannabis use. One, while there is a distinction in adult-use sales and medical marijuana sales, adult cannabis use is often for medical reasons, such as anxiety. And two, similar to alcohol, cannabis is performing well during economic hardship.

For the broader public markets, however, COVID-19 is causing a market slowdown. Lenders and investors are hitting pause or canceling deals with the expectation of an increase in vacancy rates and loan defaults. As we have seen in previous economic crises, when you don't have buyers or when buyers have a hard time closing deals due to challenges in securing debt financing, you end up with sellers growing more desperate, potentially leading to lower asset prices.

Publicly-traded commercial REITs, in general, have sharply traded down over the past few weeks, especially REITs focused on the riskier areas of the economy - hospitality REITs and retail REITs.

On the flip side, you have cannabis REITs faring well. The singular public cannabis REIT, Innovative Industrial Properties, is one of the few REITs up on the year, supported by expectations and early sales data showing the cannabis industry performing well in this recessionary environment, similar to alcohol and pharmaceutical sales.

With the squeeze put on many operators, we can expect a significant amount of corporate recapitalizations and possibly forced M&A as a result of the constrained capital markets environment. This environment could present attractive opportunities for opportunistic investors and landlords who have real estate they could repurpose for a cannabis operator.

While we are working on getting through the worst modern pandemic the world has seen, we are all wondering what the cannabis CRE industry will look like on the other side of COVID-19.

Early trends post the onset of COVID-19 include the need to shift operations toward online ordering, delivery and curbside pickup as opposed to continuing to use storefronts as the sole retail distribution medium.

Consumers have been demanding omnichannel shopping experiences from mainstream retailers and these events have forced an evolution within the cannabis industry. These new consumer behaviors are here for the long term. These behaviors could, in turn, place pressure on lawmakers to allow the USPS to allow the shipment of cannabis products in-state.

Over the long-term, local and state governments are going to need to replenish their tax coffers, and cannabis, which has seen a double-digit increase in sales in the U.S., may be appealing to lawmakers looking for solutions to this inevitable, growing challenge.

Additionally, more retail landlords may be willing to embrace the cannabis industry. The reality is if you've got good retail real estate, and you happen to be in a green zone, you may have the opportunity to bring in a cannabis tenant that will pay above-market rents while achieving sales per foot numbers that very few tenants outside of Starbucks and Apple can achieve.

While no one can say what is going to happen, cannabis is here to stay, and real estate remains a strong investment opportunity within it.

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