

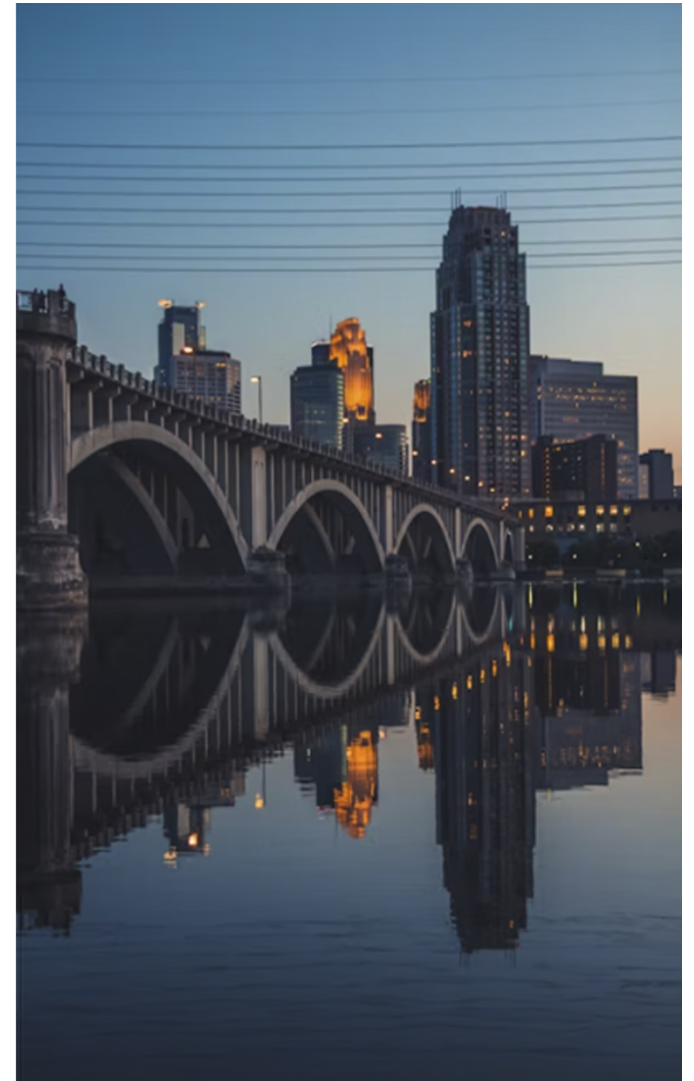
Cannabis in Real Estate

October 3, 2024

Presented by:

STINSON

Special thanks to:





AGENDA

- ❖ **INTROS & BACKGROUND**
- ❖ **WHAT'S GOING ON IN MINNESOTA CANNABIS**
 - Preapprovals & Social Equity Applicants (SEA)
 - Conversion Process & Real Estate Requirement
- ❖ **REAL ESTATE REQUIREMENTS**
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 - Retail Licenses
 - Manufacturing Licenses
 - Cultivation Licenses
 - Mezzo & Micro Licenses
 - Home Grow

The logo for Stinson, featuring the word "STINSON" in a bold, sans-serif font. The letters "I" and "N" are highlighted in a dark red color, while the other letters are in a dark grey color.

About Stinson

Stinson was founded more than 145 years ago, and with nearly 500 attorneys licensed in 32 states across 13 office locations, our attorneys leverage vast knowledge and experience to deliver practical legal guidance, helping clients minimize risks and capitalize on opportunities. Our attentive and engaged approach to client service enables our attorneys to quickly and seamlessly adjust to unforeseen changes to client matters, which is inherent to the nature of the legal industry. In partnership with Stinson's Government Solutions group, Stinson's attorneys are at the forefront of interpreting new legislation and compliance requirements to effectively counsel clients.

Learn more at www.stinson.com



About Point7

Point Seven Group (Point7) is an award-winning, 100% women-owned management consulting firm dedicated to the cannabis industry. Founded in 2014, Point7 offers management consulting services to both newly established cannabis companies preparing to pursue a business license, and more mature cannabis companies exploring exit and expansion opportunities. Point7 provides a wide range of consulting services including; business and financial strategy and modeling; operating plan development and implementation; recruitment, hiring and employee training; brand positioning and marketing strategy; community engagement strategy; and sustainability planning for cannabis facilities. The company has now supported more than 300 teams across 38 States and 6 countries.

Learn more at www.pointsevengroup.com



SO, WHAT'S GOING ON IN MN CANNABIS?

Pre-Approval Round: The “pre-approval” round ran between July 24 and August 12. The date for announcing lottery winners is yet to be determined. Winners of pre-approval will be able to convert to a full license after rulemaking is complete; to convert to a license, real estate is required. Pre-approval winners may not transfer their pre-approval to another entity. ***Notably, hundreds of qualified individuals applied – and the vast majority applied without real estate (not required for this submission).***

Rulemaking: The rulemaking process has begun, but a formal docket has not yet been announced. The expectation is that rules will be adopted sometime in early (Q1) 2025.

Subsequent Licensing Rounds: After rulemaking is complete, an SEA licensing round will be held. After that round is complete, a “general” licensing round may be held.



PREAPPROVAL OF LICENSES IN MINNESOTA

Preapprovals (Only social equity applicants)

The office may issue up to the following number of license preapprovals for the following types of licenses:

License Type	Preapprovals
Microbusiness	100
Mezzobusiness	25
Cultivator	13
Manufacturer	6
Retail	38
Wholesaler	20
Transporter	20
Testing Facility	50
Delivery Service	10

Available License Types

Social Equity License Caps

Before July, 1 2026 the following caps are in place for license types available in a social equity lottery round.

License Type	Social Equity License Caps
Mezzobusiness	50
Cultivator	25
Manufacturer	12
Retail	75

General Population License Caps

Before July, 1 2026 the following caps are in place for licenses available to all applicants in the general population round that is to follow the social equity round.

License Type	General Population License Caps
Mezzobusiness	50
Cultivator	25
Manufacturer	12
Retail	75



IMPORTANT THINGS TO KEEP IN MIND

Market Stability Language:

"Subject to the limits under subdivision 1b, paragraphs (a) to (d), the office shall issue the necessary number of licenses in order to ensure that there is a sufficient supply of cannabis flower and cannabis products to meet demand, provide market stability, ensure that there is a competitive market, and limit the sale of unregulated cannabis flower and cannabis products."

Licensing limits are maximums, not required distributions; recent updates addressed previous unlimited micro license reporting.

Moratoriums:

A number of cities and counties have moratoriums on cannabis business licensing. These will be prohibited by state law starting January 1, 2025.

Local Licensing Limits:

Cities and counties can limit cannabis businesses to one per 12,500 residents. If a county meets this requirement, cities within do not need additional registrations.

Local Restrictions:

Reasonable restrictions on cannabis businesses are allowed, but must not prevent their establishment. Prohibitions **may** be set within 1,000 ft. of schools and 500 ft. of daycares, treatment facilities, or parks used by minors.

Prohibition Restrictions:

Local governments cannot fully prohibit cannabis or hemp businesses, except as outlined in section 342.22.



CONVERSION OF A PREAPPROVAL

Real estate is required before a pre-approval may be converted into an active license.

Subd. 10. Conversion of pre-approval. (a) After the office adopts initial rules pursuant to Minnesota Statutes, section 342.02, subdivision 5, the office must issue a license to any person who has received a license pre-approval if:

- (1) the person provides the address and legal property description of the location where the business will operate;
- (2) the person provides the name of the local unit of government where the business will be located;
- (3) if applicable, the person provides an updated description of the location where the business will operate, an updated security plan, and any other additional information required by the office;
- (4) the office contacts the appropriate local unit of government as provided in Minnesota Statutes, section 342.13, paragraph (f), to confirm that the proposed cannabis business complies with local zoning ordinances and, if applicable, whether the proposed business complies with the state fire code and building code;
- (5) the office completes an inspection of the site where the cannabis business will be located and approves the site; and
- (6) the person pays any applicable license fee.



REAL ESTATE REQUIREMENTS - ALL LICENSE TYPES

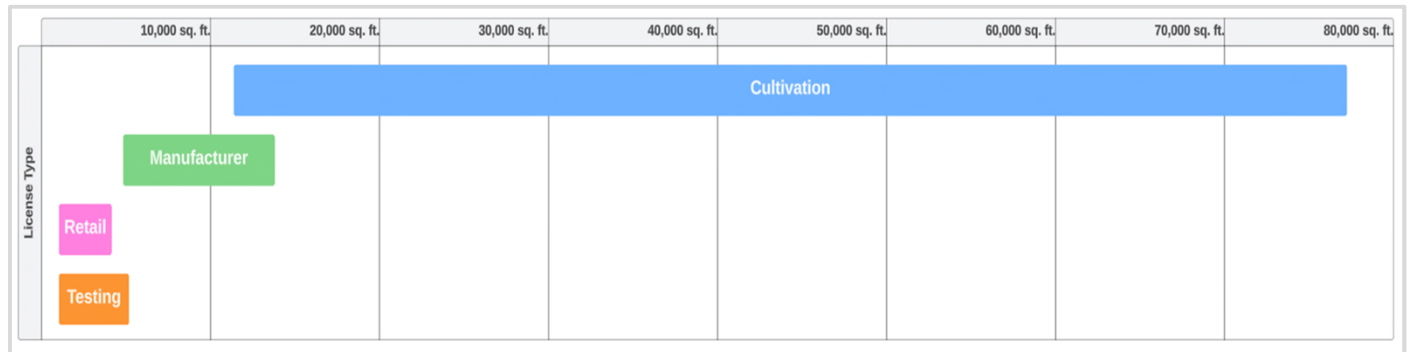
A local unit of government may prohibit the operation of a cannabis business within 1,000 ft of a school, or 500 ft of a daycare, residential treatment facility, or an attraction within a public park that is regularly used by minors, including a playground or athletic field.

Please note: It's likely additional real estate requirements will be outlined in regulations once they are released. There may be private covenants or restrictions recorded against real estate that limit or prevent cannabis related uses.



SPACE REQUIREMENTS/BEST PRACTICES by LICENSE TYPE

License Type	Min sq. ft.	Average sq. ft.	Max sq. ft.	Approximate Employees (for Average Size)	Single or Two-Story+
Cultivator	11,150	44450	77750	20	Typically Single
Manufacturer	4,675	8763	12850	8-12	Any
Retail	2,370	3233	4095	8-10 employees	Typically Single Floor
Testing Facility	2,500	3750	5000	6-8	Any
Micro License	7,500		5000 (Canopy)	Depends on endorsements	Depends on endorsements
Mezzo License	20,000		15000 (Canopy)		





REAL ESTATE REQUIREMENTS - ALL LICENSE TYPES

PUBLIC OPINION: Ensure neighboring businesses and community are aware of the proposed operation and amenable to the concept.

BUILD OR BUY: Consider the build-out time of a new build versus an existing structure (retrofit). Plan for future expansion, allowing for additional cultivation space or equipment upgrades as the operation grows.

ALTERNATIVE WASTE: Composting, recycling plant material

24-HOUR SECURITY: Security systems in all areas where cannabis is present, including commercial-grade duress, panic, and hold-up alarm systems, motion detectors, pressure switches, and surveillance covering all critical areas. Need access controls for areas where cannabis is handled or stored, such as locked rooms or vaults.

SURVEILLANCE: Audio/video surveillance system, high definition video covering the facility & exterior, displays time & date, sufficient lighting.

INTERNET: Uninterrupted, reliable internet service with commercial-grade networking hardware will need to be installed.

INSURANCE: Bring your insurance agent to all building tours.



REAL ESTATE LEGAL BEST PRACTICES (ALL) LICENSE

TITLE REVIEW: Obtain a title commitment, whether buying or leasing.

LETTER OF INTENT: Prepare a detailed Letter of Intent so that there aren't any surprises or major issues to be negotiated in the lease.

COMPLIANCE WITH LAWS: As a cannabis tenant, be careful how applicable laws are defined in your lease and make sure your lease does not require you to comply with federal laws.

TERMINATION RIGHT: Many cannabis tenants are able to negotiate a right to terminate their lease if they fail to obtain a license.

LANDLORD ACCESS: Work with Landlord to limit their access rights in order to comply with security requirements.

INDEMNITY: Tenants should consider asking landlords to acknowledge the risk of enforcement actions and to limit the landlord's indemnity right accordingly.



REAL ESTATE CONSIDERATIONS, RETAIL

POWER: A facility will need: 1) Adequate power supply to support multiple POS terminals, displays/menus; and a 24/7 surveillance, alarm, and electronic key access systems; 2) Backup power in the event of an outage, especially for surveillance and alarm equipment; and 3) Many outlets to source power for workstations and cash payment areas.

INFRASTRUCTURE: The facility will need an HVAC system to maintain facility temperatures, as well as an ATM with sufficient space and power to be useable.

TRAFFIC: High-trafficked neighboring 'anchor businesses' — such as coffee shops, convenience stores, popular event venues, etc. — can help to drive traffic to your dispensary. Surrounding businesses with similar target markets should be considered as part of your selection process.

TRANSPORTATION: Sufficient parking, including affordable and short-term options, is crucial for a successful retail business. Proximity to public transit stations also enhances customer accessibility.



REAL ESTATE CONSIDERATIONS, RETAIL

SECURITY: The facility will need an office with a locking server rack to be devoted to surveillance, alarm, and internet hardware equipment. The office must have enough space to accommodate a reinforced vault.

WINDOWS: The facility should have few public-facing windows to minimize risk of break-ins, but skylights are a safe way to bring in natural light.

ENTRY: The facility will need two points of ingress and egress - an entry and exit for customers, and an entry and exit for employees and service providers. Customers should enter from the street or parking lot rather than a shared hallway.

OTHER TENANTS: Other tenants in the building may have lease provisions that prevent the landlord from renting space for cannabis related uses and the landlord may forget to check.

PERCENTAGE RENT: Avoid percentage rent provisions because they could lead state agencies to deem landlord a beneficial owner of the cannabis business and subject both landlord and tenant to criminal and civil penalties.



REAL ESTATE CONSIDERATIONS, MANUFACTURING

WATER: Reliable water supply for processing needs and proper drainage systems, especially if using water or ethanol-based extraction methods.

POWER: Adequate electrical infrastructure for processing equipment, higher voltage lines may be necessary for large-scale operations.

TECHNOLOGY: Robust IT infrastructure for tracking inventory, process management, and complying with track-and-trace requirements.

INFRASTRUCTURE: Does the site possess critical manufacturing infrastructure?

- Advanced ventilation systems to manage fumes and airborne particles.
- Facilities for safely storing and handling solvents and other hazardous materials.
- Climate control systems for maintaining consistent temperatures.

ZONING: Is the site zoned appropriately for manufacturing and processing, with adherence to local and state regulations?



REAL ESTATE CONSIDERATIONS, MANUFACTURING

IMPACT: Evaluate the potential impact on the local community, including noise, traffic, and environmental factors. The goal is to maintain transparency and positive relations with community members and local businesses.

PROXIMITY:

- Closeness to major transportation routes for efficient distribution. Consideration for truck access, loading docks, and secure shipping areas.
- Consider proximity to cultivation sites to reduce transportation costs and ensure fresh supply.

DESIGN: Adequate and well-designed spaces for extraction, refinement, packaging, and storage, ensuring a streamlined workflow.

- Implement comprehensive safety systems, including explosion-proof rooms for certain extraction methods, and secure storage for finished products.
- Facility design allows for expansion or changes in processing technology and capacity.

EMPLOYEE FACILITIES: Changing rooms, showers, and break rooms for employees, along with safety stations.



REAL ESTATE CONSIDERATIONS, MANUFACTURING

HAZARDOUS MATERIALS: Adherence to regulations regarding the disposal of hazardous waste, including chemicals used in extraction.

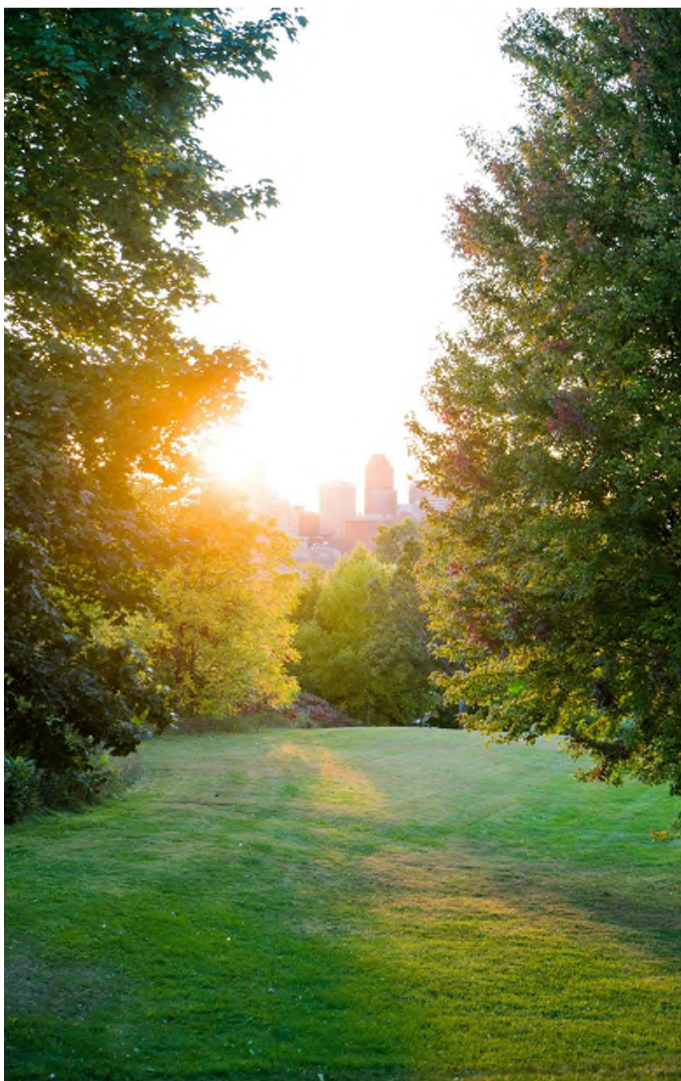
WASTE FACILITIES: Space for secure and compliant storage of waste products before disposal, preventing unauthorized access and contamination.

SERVICE PROVIDERS: Partnering with certified waste disposal services that specialize in handling hazardous and non-hazardous cannabis waste.

FENCING: Fencing or barriers to prevent unauthorized access.

ENTRY: Exterior doors, windows, and walls designed to resist forcible entry, remain locked against intrusion while allowing egress for occupants, access should be controlled via key cards or electronic devices.

MOVE OUT: Both landlords and tenants should consider what equipment can be left and what equipment must be removed at the end of a lease term.

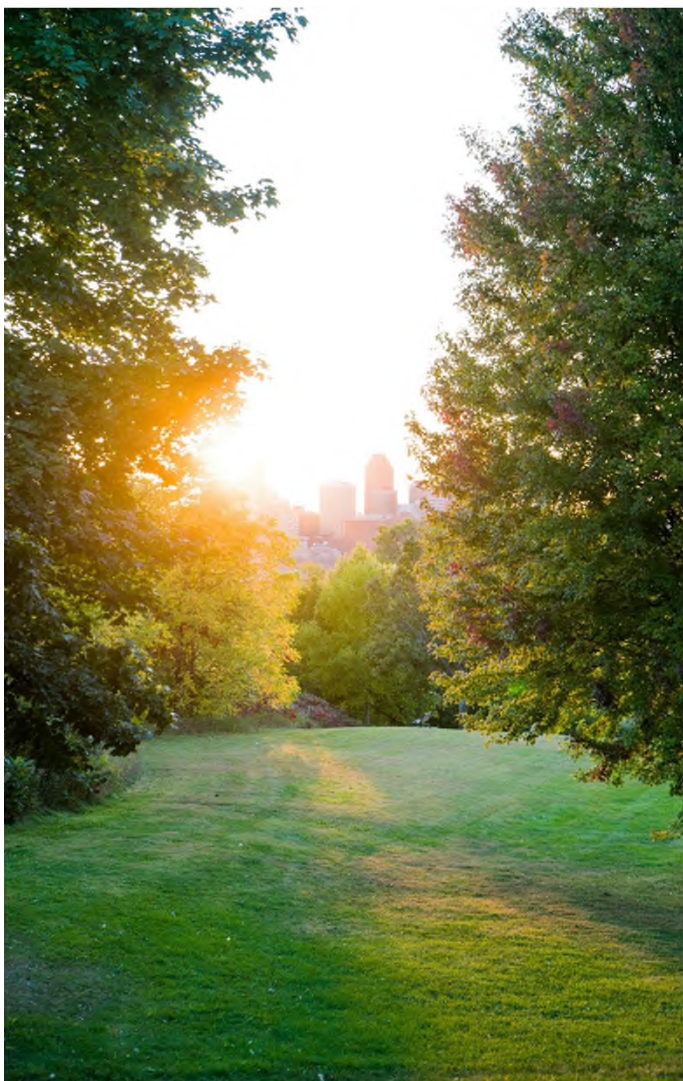


REAL ESTATE CONSIDERATIONS, CULTIVATION

WATER: Find a reliable water supply, consider water treatment systems for irrigation, and evaluate water pressure and flow rates needed for the cultivation method. Ensure proper drainage to prevent waterlogging and design a runoff management system to prevent contamination of local water sources. Explore systems for capturing and reusing water, such as rainwater harvesting or recirculating irrigation systems.

POWER: Adequate electrical supply for grow lights, ventilation systems, irrigation systems, and environmental controls; may require a higher capacity electrical panel or even dedicated power lines. Consider installing a backup power supply to maintain critical operations during power outages. Utilize energy-efficient lighting solutions to reduce electricity consumption and heat generation. Consider the installation of renewable energy sources such as solar panels or wind turbines to potentially lower energy costs.

INFRASTRUCTURE: Implement HVAC systems to maintain optimal temperature, humidity, and air quality. Use eco-friendly materials for construction and insulation to enhance sustainability.



REAL ESTATE CONSIDERATIONS, CULTIVATION

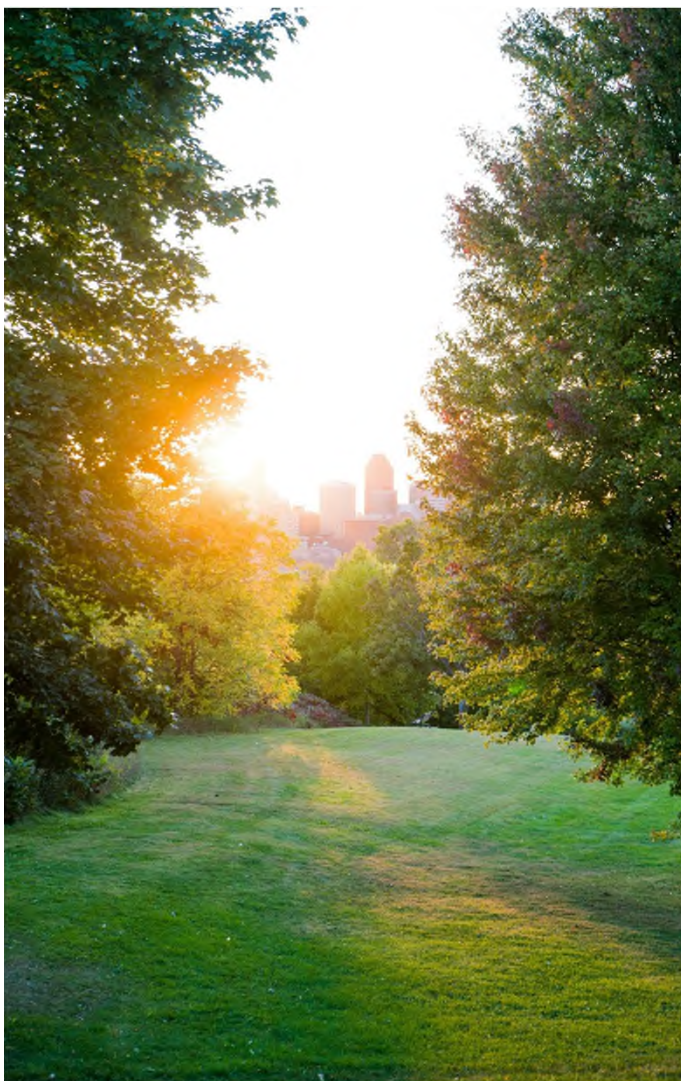
WASTE: Consider disposal of cannabis waste, which includes rendering it unusable and unrecognizable. Provide secure, designated areas for waste storage to prevent theft or misuse and manage odor.

ZONING: Is the site zoned appropriately for agriculture, with adherence to local and state regulations?

IMPACT: Evaluate the potential impact on the local community, including odor, traffic, and environmental factors. The goal is to maintain transparency and positive relations with community members and local businesses.

PROXIMITY: Closeness to major transportation routes to facilitate moving product to different locations throughout the state and create a seamless supply chain. Consider ease of access for deliveries and shipments, with consideration for large vehicles. Proximity to suppliers and distributors can reduce transportation costs.

LABOR: Consider location relative to founding operational team. Availability and accessibility of local skilled labor should be a major consideration in the site selection process.



REAL ESTATE CONSIDERATIONS, CULTIVATION

DESIGN: Adequate and well-designed spaces for propagation, vegetation, flowering, drying, and curing, ensuring each area meets environmental requirements.

- Implement adequate odor control systems, like carbon filters, to prevent cannabis smell from affecting neighboring properties.
- Facility design allows for expansion or changes in processing technology and capacity.
- Ensure the layout allows for efficient workflow and movement of plants and materials, minimizing the risk of cross-contamination and pests.

DOORS & WINDOWS: Design a secure facility with limited access points, ideally with separate entries for staff and service providers.

- Utilize skylights or other natural light sources while ensuring proper insulation for temperature control.
- Exterior doors, windows, and walls designed to resist forcible entry, remain locked against intrusion while allowing egress for occupants, access should be controlled via key cards or electronic devices.

SURVEILLANCE: Audio/video surveillance system, high definition video covering the facility & exterior, displays time & date, sufficient lighting.

FENCING: Fencing or barriers to prevent unauthorized access.



REAL ESTATE REQUIREMENTS, MEZZO & MICRO

Cultivation/Processing Facility

SQUARE FOOTAGE: Point7 recommends 25,000 - 30,000 square feet, depending on your desired processing activities.

CULTIVATION LIMITS: One acre maximum outdoor mature, flowering plants.

MANUFACTURING LIMITS: Must be equivalent to the amount of cannabis flower that can be harvested from a facility with a plant canopy of 15,000 square feet in a year. (Subject to change)

WATER: Property must come with water rights. Determine water source (well/municipality line).

POWER: Depending on lighting selections, expect to need 25 - 35 watts per sq ft. plus additional wattage requirements depending on your manufacturing procedures.

INFRASTRUCTURE: Are there existing HVAC and insulation systems?

LOCATION: Ideal location is quickly accessible off of highways and main roads, yet remote enough to be secure.

BUILDING: High ceilings are preferred as this allows for various lighting systems.



REAL ESTATE REQUIREMENTS, MEZZO & MICRO

Retail Facility (Allowed up to 3)

GOVERNMENT: Local governments will issue retail registration to mezzobusinesses with a retail operations endorsement; this is important to note as you search for real estate so you can begin to establish relationships with the local government officials.

SQUARE FOOTAGE: Retail facilities can be flexible, a range from 1,200 - 2,500 can support a compliant, efficient, high-volume retail operation.

LOCATION: Proximity to highways/larger local roads, visibility to roads, evaluation of existing foot traffic data.

TRANSPORTATION: Accessibility to substantial parking, ADA parking options, accessibility to public transportation.

RECEPTIVENESS: Is the community excited about cannabis? (will require communication with local officials).

MARKET SIZE: Evaluate the regional opportunity.

- No more than once facility allowed for every 12,500 residents.
- Counties without 12,500 residents are not obligated to register a cannabis business.

ZONING: If zoning ordinances are not established, start by meeting local government officials to determine if considerations on zoning restrictions have begun.



Home Grow & Home Use

Home Grow: Subd. 2. Home cultivation of cannabis for personal adult use. Up to eight cannabis plants, with no more than four being mature, flowering plants may be grown at a single residence, including the curtilage or yard, without a license to cultivate cannabis issued under this chapter provided that cultivation takes place at the primary residence of an individual 21 years of age or older and in an enclosed, locked space that is not open to public view.

Home Use: In the context of multifamily housing Minnesota's cannabis legislation takes a strong stance, that goes beyond the still-existing allowance for landlords and HOAs to prohibit smoking in individual units:

(b) Except for the use of medical cannabis flower or medical cannabinoid products, the vaporizing or smoking of cannabis flower, cannabis products, artificially derived cannabinoids, or hemp-derived consumer products is prohibited in a multifamily housing building, including balconies and patios appurtenant thereto. A violation of this paragraph is punishable through a civil administrative fine in an amount of \$250.

Cannabis remains federally illegal, any federal programs that prohibit cannabis possession or use - Section 8 Housing Vouchers for example - remain in effect.



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