

 **GROWN IN**



IN DEPTH REPORT: NEW JERSEY

October 2022

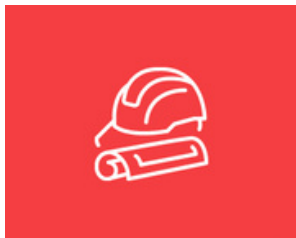
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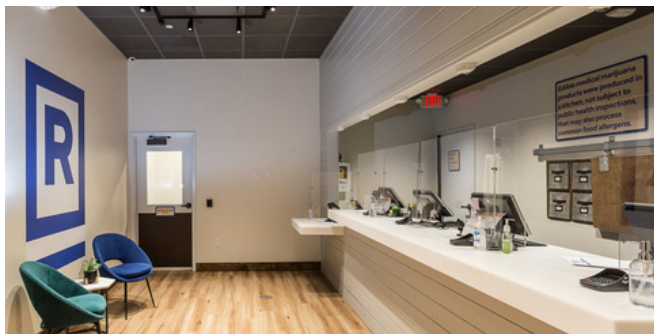
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INTRODUCTION



The legal cannabis industry lives in a hype-bust cycle. The trick for investors and operators alike is to figure out how much of the hype is real and then avoid getting sucked in too far. But the trick to that trick is to gain enough sources of information and knowledge so you can accurately measure hype versus real.

We spend a lot of time at Grown In sorting out hype from real. Every month we talk to dozens of operators and investors across the country cross checking, double checking, and asking for explanations. And usually, the answers you're looking for come from incidental conversations, not the direct questions you ask.

Eventually, somewhere around visiting our tenth or twelfth cultivation facility, we began to see that there was a pretty big gap between knowing facts about the cannabis industry and actually understanding it. And that's when the idea of creating In Depth Reports began to come about.

This is our first one, and to get started, we thought we'd start with one of the hypi-est cannabis markets out there, New Jersey. It has a great deal of promise, but what exactly is the state's cannabis history, the rules and limitations of that promise, and the players attempting to shape the market?

Here, Grown In attempts to answer those questions with data, history, and analysis. Whether you're new to investing in cannabis, getting started in New Jersey, or an experienced hand, we think you're going to find this report useful. And in the meantime, if you have any questions or comments, please feel free to drop me a note at mike@grownin.com, because I'd love to hear from you.

Mike

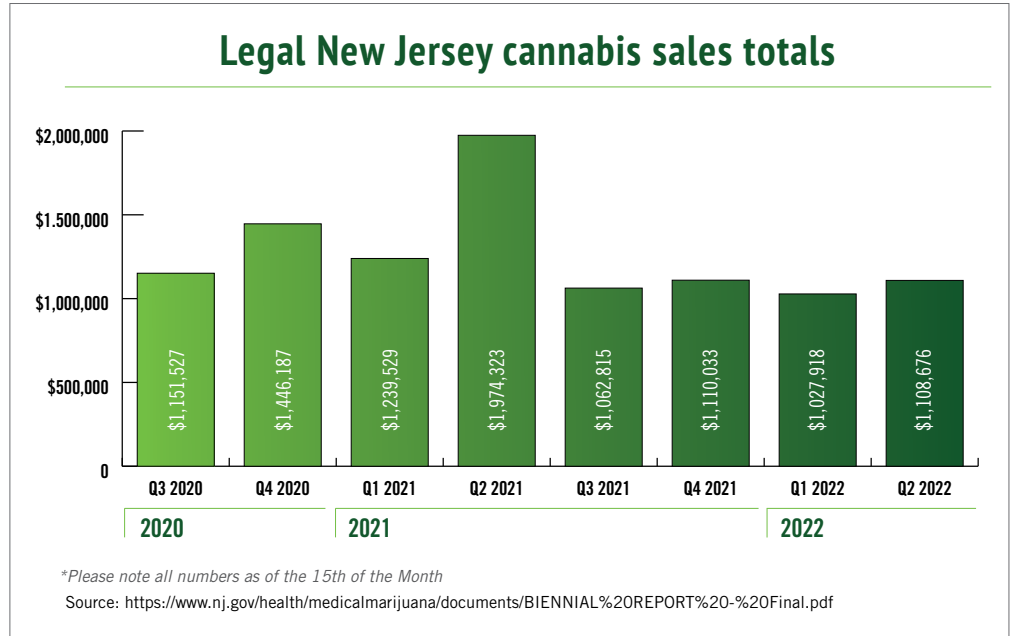
Mike Fourcher
Editor



THE MARKET IN GRAPHS

1. Sales history chart

Until April 2022 New Jersey only allowed medical cannabis sales. However, in the first quarter of sales (state regulators do not yet report monthly sales numbers), recreational sales increased to an average of \$26 million a month of adult use sales.

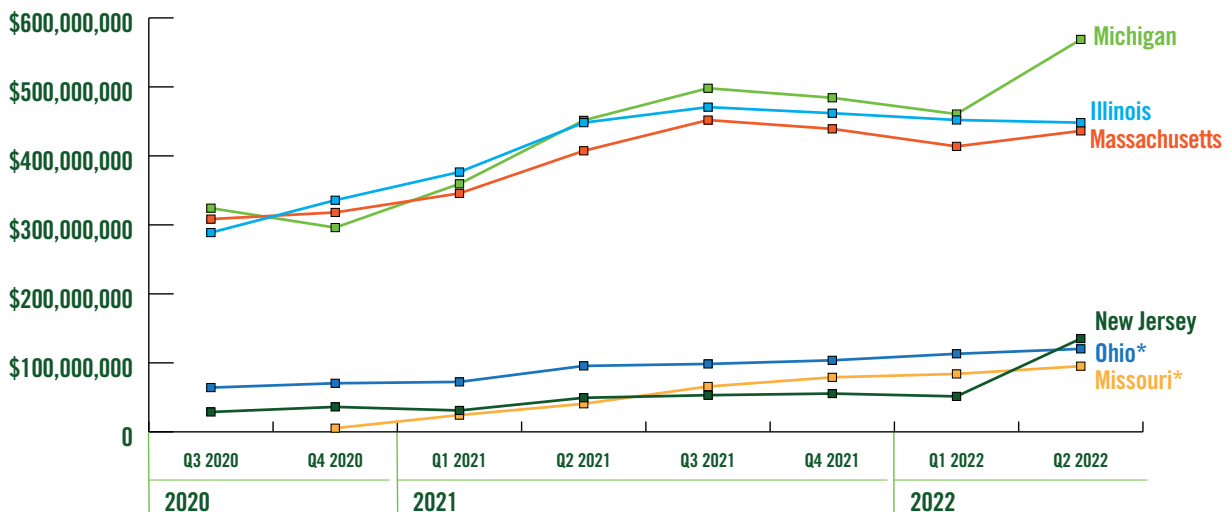


2. Comparable states

Compared to other medical-only states like Missouri and Ohio, which have three million less and two million more people than New Jersey respectively, the Garden State’s medical cannabis program grew very slowly. That trend can likely be assigned to two factors: That New Jersey strictly limited the number of medical dispensaries, while Ohio and Missouri both opened dozens more than New Jersey in the same period. Second, New Jersey’s underground cannabis market is reputed to be one of the most active in the country.

Now that New Jersey is beginning to open more adult use dispensaries – 110 conditional licenses have already been awarded – it would seem more likely that its growth will follow states like Illinois and Massachusetts, which each have well over 100 dispensaries today.

Comparative legal cannabis sales by state



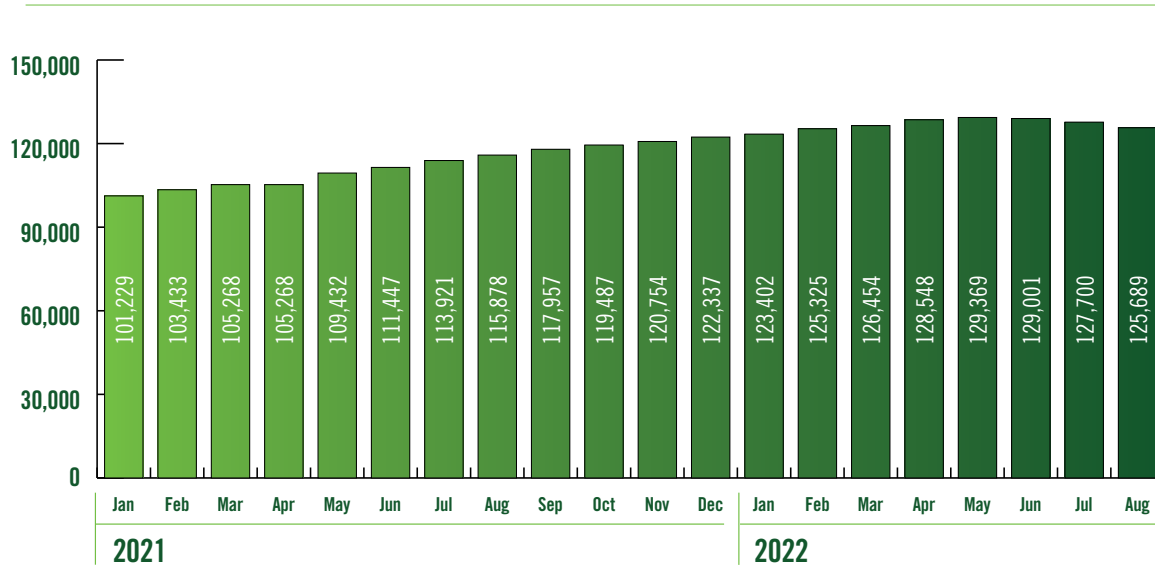
*Medical only

**Please note all numbers as of the 15th of the Month

3. Medical patients

New Jersey’s medical patient totals have stayed relatively stable over the last year. However, soon after April’s adult sales launch, the number of medical patients began a slight decline. We anticipate that decline to continue at a low rate, as long as prices stay comparatively high.

New Jersey registered medical marijuana patient count



*Please note all numbers as of the 15th of the Month
Source: New Jersey CRC

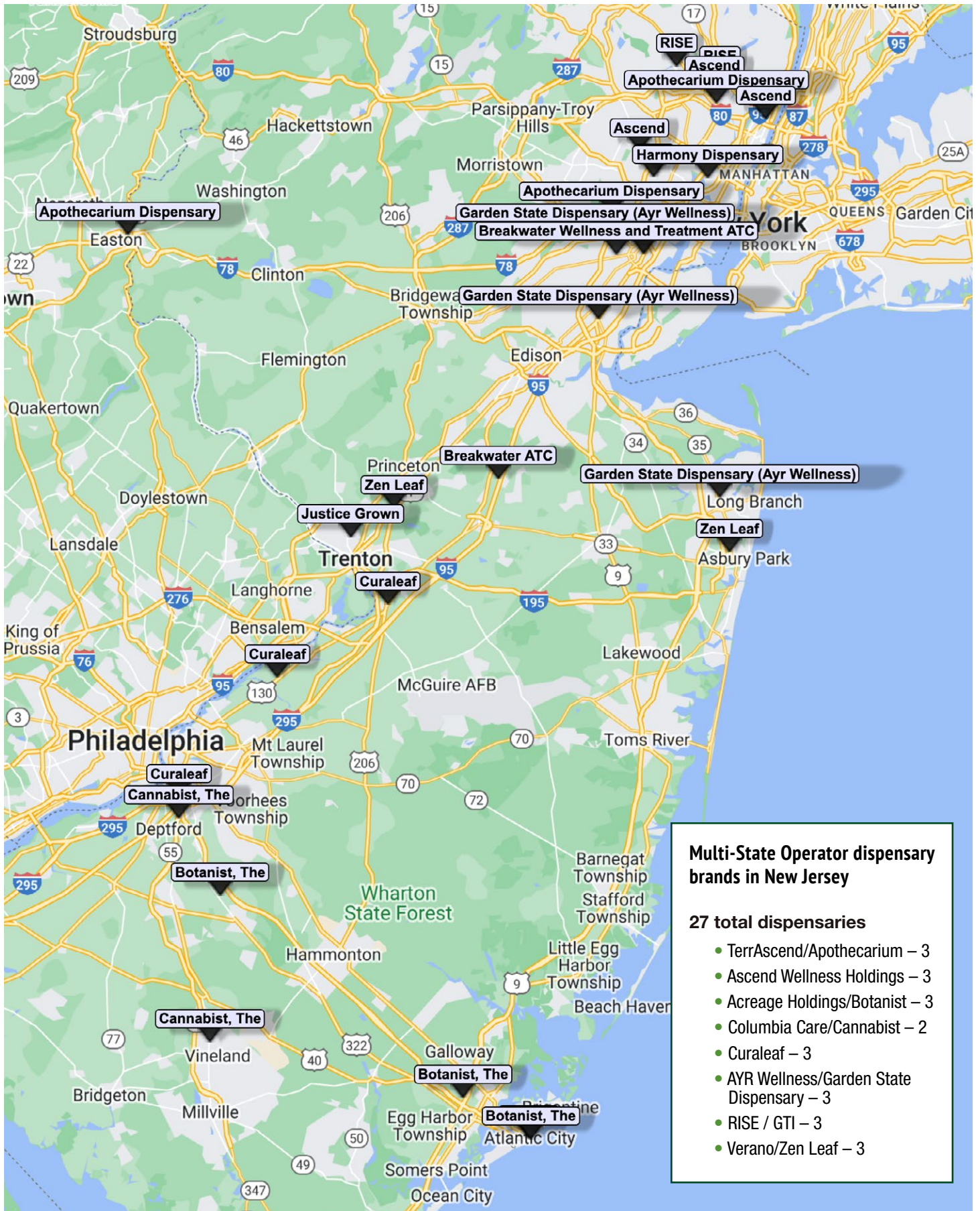
4. Flower prices

A quick survey of the lowest flower prices available at adult use dispensaries finds little price competition among dispensaries and with retail prices generally over \$6,000 a pound. Much more mature markets like Colorado or Michigan have retail prices closer to \$2,000 a pound. For now, the state has only a few dozen dispensaries and around a dozen cultivators, which generally constrains supply and availability. As more dispensaries come on line and existing cultivators expand, we expect prices to drop somewhat in 2023, but once newly licensed cultivators and micro growers start harvesting in late 2023, we expect retail prices to drop by 40-50%, as they have in other states in similar situations.

LOWEST ADULT USE FLOWER PRICES IN NEW JERSEY				
Company	Lowest Flower Price	Ounces	Per Ounce	Per Pound
Apothecarium / TerrAscend	\$20.00	3.5	\$162.00	\$2,591.96
Ascend Wellness	\$55.00	3.5	\$445.49	\$7,127.88
Botanist / Acreage Holdings	\$49.02	3.5	\$397.06	\$6,352.88
Cannabist / Columbia Care	\$55.00	3.5	\$445.49	\$7,127.88
Curaleaf	\$45.00	Eighth	\$360.00	\$5,760.00
Garden State / AYR	\$50.00	Eighth	\$400.00	\$6,400.00
RISE / GTI	\$55.00	3.5	\$445.49	\$7,127.88
Zen Leaf / Verano	\$50.00	3.5	\$404.99	\$6,479.89

*Prices as of September 22, 2020

5. Current dispensary locations (as of September 22, 2022)



HISTORY OF MEDICAL CANNABIS LEGALIZATION

New Jersey Governor Jon Corzine signed the Compassionate Use Medical Marijuana Act on Jan. 18, 2010. It was Corzine's final day in office after having lost his first reelection bid to Chris Christie the previous November.

The law was supposed to go into effect six months later, but once in office Christie pushed back on implementation. By Dec. 2010, Christie announced that he reached a [bipartisanship agreement](#) with the legislature.

Christie agreed to allow the state to issue six licenses for vertically-integrated Alternative Treatment Centers. In exchange, Christie was able to remove delivery and require physicians who can prescribe medical cannabis be registered in a centralized database.

The compromise included allowing six licenses for vertically-integrated Alternative Treatment Centers. Delivery was prohibited and ATC's were not allowed to operate satellite dispensaries.

The first dispensary in the state, Greenleaf Compassion Center, opened Dec. 6, 2012.

One of the first major updates to the state's medical cannabis law came in 2013, with S2842, or An Act Concerning Medical Marijuana and amending P.L.2009, c.307.

This effort again involved a compromise from Gov. Christie, who inserted his own changes after the legislature sent the bill to his desk. This time, Christie agreed to allow an increase in the variety of legal cannabis products, in order to ensure that minor patients would still need to obtain approval from a registered pediatrician or psychiatrist.

The [new amendment](#) to the state's expanded medical access to cannabis to minors, but only if their prescribing physician also includes a written explanation of the potential risks and benefits from using cannabis.

The amendment also lifted the three-strain limit and the 10% THC cap to which ATC's were [originally confined](#), and edibles were made legal, but only for minors.

Six years later, the state would enact a comprehensive overhaul of its medical cannabis program under the Jake Honig Compassionate Use Medical Marijuana Act of 2019. The overhaul came just a few months after an attempt to legalize adult use cannabis failed in the state legislature, despite increasing public support for legalization.

Jake Honig was a 7-year-old who passed away on Jan. 21, 2018 after succumbing to brain cancer. The child's parents had attempted to treat his pain with medical cannabis, but they found that the state's 2 oz. monthly limit was not enough to keep up with young Honig's needs. This in turn, led to the 7-year-old having to use morphine and OxyContin for pain management, [according to his parents](#).

By this time, Christie had been replaced in the governor's office by Democrat Phil Murphy, who was naturally less-combative toward the Democrat-controlled legislature. Murphy was openly more supportive than his predecessor of legalizing adult use cannabis.

A year and a half before signing the Honig Act, just five days after the child's passing, Murphy issued an [executive order](#) calling upon the Department of Health and the Board of Medical Examiners to review the state's cannabis regulations with specific calls to allow ATCs to open at least one satellite dispensary and to find ways to expedite the process for applying for cannabis licenses and more patients to obtain medical cards.

The Honig Act raised the monthly purchase limit to 3 oz. That limit was completely removed for terminally ill patients and those in hospice care. Edibles were made available for adults. The law started the clock on the state's phase out of the 6.625% sales tax on medical cannabis, going from 4% in July 2020 to 2% in July 2021, before dropping to 0% in July 2022.

The new law also allowed patients to obtain a second caregiver, it expanded the pool of medical practitioners who could prescribe cannabis to physician assistants and advanced practice nurses.

Delivery was legalized for patients, and dispensaries were required to post their price list online. Dispensaries were also allowed to accept medical cards from other states.

The law opened the door for more dispensaries, doing away with the requirement for vertical integration and allowing new applicants to seek either a cultivation, manufacturing and/or dispensary license. Existing license holders could now also seek a third dispensary license.

Finally, the law created the Cannabis Regulatory Commission, which took over control of the program from the Department of Health.

LICENSE LIMITATIONS OVERVIEW

Medical cannabis providers were originally licensed as vertically-integrated entities, but after the passage of the Jake Honig Compassionate Use Medical Cannabis Act in July 2019, medical cultivation and medical manufacturing are two separate licenses.

Licensees may not have more than three dispensary locations. Medical-only dispensaries can convert to hybrid models after at least one year of operation.

As of this writing, aside from testing lab and hybrid retail licenses, no other adult use annual licenses have been issued. The state has issued 351 conditional licenses for cultivation, manufacturing and retail, as of Sept. 9, 2022. Conditional licenses allow recipients to begin building out operations for the cultivation, manufacture, dispensing, wholesale, distribution, or delivery of recreational use cannabis while working toward license requirements. Businesses can begin to operate once they obtain an Annual License.

Medical

- Cultivation – 14
- Manufacturing – 9 (all are located at an existing cultivation site)
- Dispensary (7 are located at existing cultivation sites)
- 19 Medical/Adult Use hybrid
- Medical-only

Adult Use

License type followed by number of awarded licenses

- Testing Lab – 4 licenses
- Conditional licenses
 - Cultivation – 154
 - Manufacturing – 87
 - Retail - 110

Adult Use Annual License Types

- Class 1 cultivator – multiple tiers (limited to 37 licenses until February 2023.)
- Microbusiness – up to 2,500 square feet of canopy, and up to 1,000 plants
- Tier I – 10,000 square feet
- Tier II – 10,000 to 25,000 square feet
- Tier III – 25,000 to 50,000 square feet
- Tier IV – 50,000 to 75,000 square feet
- Tier V – 75,000 to 100,000 square feet
- Tier VI – 100,000 to 150,000 square feet
- Expanded ATC Cultivator: premises up to 150,000 square feet
- Class 2 Manufacturer – Two tiers, divided at 10,000 square feet.
- Class 3 Wholesaler – Store, sell or otherwise transfer, recreational use cannabis items between cannabis cultivators, wholesalers, or retailers.
- Class 4 Distributor – Transport cannabis items in bulk between cannabis cultivators, manufacturers, or retailers.
- Class 5 Retailer - Sell cannabis to the general public
- Class 6 Delivery - Delivery cannabis to customers.
- Testing Lab



APPLICATION AND LICENSING FEES

Conditional Licenses

- Application or conversion submission – \$200 (microbusiness – \$100)
- Approval, both new and conversions – \$800 (microbusiness – \$400)

Annual Licenses

- Application – \$400 (microbusiness – \$200)
- Approval – \$1,600 (microbusiness – \$800)
- Conversion licenses have no additional annual license fee.
- Testing lab application – \$400
- Testing lab approval – \$1,600

Expanded ATC Certification

- Medical Cultivation – \$400,000
- Medical Manufacturer – \$300,000
- Medical Dispensary – \$100,000

Vertical Integration

- 1 Dispensary - \$800,000
- 2 Dispensaries - \$900,000
- 3 Dispensaries - 1,000,000

Other Licensing Fees

- Cultivation
 - Microbusiness – \$1,000
 - Tier I (2,500 to 10,000 sq ft of canopy) – \$5,000
 - Tier II (10,000 to 25,000 sq ft of canopy) – \$10,000
 - Tier III (25,000 to 50,000 sq ft of canopy) – \$20,000
 - Tier IV (50,000 to 75,000 sq ft of canopy) – \$30,000
 - Tier V (75,000 to 100,000 sq ft of canopy) – \$40,000
 - Tier VI (100,000 to 150,000 sq ft of canopy) – \$50,000
- Manufacturer
 - Microbusiness – \$1,000
 - Up to 10,000 sq ft – \$20,000
 - More than 10,000 sq ft – \$30,000
- Retailer – \$10,000 (microbusiness – \$1,000)
 - Testing Lab – \$4,000



LICENSE APPLICATION DEADLINES

New Jersey's Cannabis Regulatory Commission is currently accepting applications for:

- Class 1 Cultivator Licenses
- Class 2 Manufacturer Licenses
- Class 5 Retailers
- Testing Labs

As of publication in September 2022, there is no deadline for applications. However, the state is only allowed to approve 37 cultivation licenses until February 22, 2023. As of this writing the state has already approved 154 conditional licenses for those seeking to become cultivators.

License applications will be accepted and reviewed on a rolling basis until indicated otherwise, typically during the CRC's monthly meeting.

Social Equity Businesses, Diversely-Owned Businesses, Impact Zone Businesses, and applications that receive bonus points will be afforded priority review, scoring, and approval.

The CRC began accepting applications for Class 1 cultivator, Class 2 manufacturer and Testing labs on December 15, 2021. CRC began accepting Class 5 retail applications on March 15, 2022.

OVERVIEW OF MEDICAL REGULATIONS

After medical cannabis was first legalized in New Jersey in 2010, the state set a limit of just six licenses for vertical-integrated Alternative Treatments Centers. Cultivation, production and dispensing all had to take place at the same site.

Following a series of updates over the last decade, the medical operators now hold separate licenses for stand-alone cultivation and production, and for dispensing. ATC operators are permitted to operate up to three dispensaries, with one in each of the state's regions (northern, central, and southern).

All ATC's must have labor peace agreements, and applicants with existing labor agreements, or an agreement in the works with a union recognized for its work in the cannabis space in or outside the state, receive priority for review.

Ownership

The first six licensed alternative treatment centers were originally required to be non-profits, but the Honig Act created a one-year window after it went into effect, during which the original six licenses could be transferred to a for-profit entity.

The CRC must approve all sales or transfers of at least 5% of any licensed cannabis company.

Applications for conditional medical licenses require documentation that the applicant entity includes at least one significantly involved person who has resided in the state for at least two years, as of the date of the application.

The applicant must submit a list of all owners, officers, directors, employees and significantly involved persons when applying. All must also submit to criminal background checks.

The Commission must make a determination on all applications within 30 days of their receipt, but one of those determinations could be that the Commission needs more time.

Microbusinesses

The Commission must ensure that at least 10% of each of the three medical license types is granted to a microbusiness, with microbusinesses comprising at least 25% of all medical licenses.

Microbusinesses must be completely owned by individuals who have lived in New Jersey for at least two years. At least 51% of the owners, directors, officers or employees shall reside in the same municipality or a bordering municipality as the location of the business.

Microbusinesses may not occupy more than 2,500 square feet and can have no more than 10 employees at any one time. Microbusiness manufacturers may not receive more than 1,000 pounds of dried flower each month for processing, and dispensaries may not acquire any more than the equivalent of 1,000 pounds of dried flower in a month.

At least 15% of new medical licenses should be reserved to applicants that have been certified as a minority business, and 15% must also be certified as woman-owned or veteran-owned.

Testing

Medical cannabis must be tested with liquid chromatography to screen for the presence of microbial contamination, foreign materials, residual pesticides, heavy metals, and other agricultural residue.

Transport and Delivery

Medical operators must insure any delivery or transportation vehicles with no less than \$1,000,000 of liability for each occurrence or accident. Vehicles cannot display brand markings or anything else that might signify that cannabis is inside. The cannabis itself must be kept in a locked box during transport. The vehicle must also be equipped with a GPS tracking device.

Delivery cannot be made with the use of an unmanned vehicle, such as a drone.

Public Consumption

Medical dispensaries may apply to open public consumption areas onsite, as long as the local municipality opts in. Alcohol and tobacco products are prohibited from public consumption areas.

MEDICAL PATIENT QUALIFICATION RULES

Conditions that qualify for medical cannabis in New Jersey

- Amyotrophic lateral sclerosis
- Anxiety
- Cancer
- Chronic pain
- Dysmenorrhea
- Glaucoma
- Inflammatory bowel disease, including Crohn's disease
- Intractable skeletal muscular spasticity
- Migraine
- Multiple sclerosis
- Muscular dystrophy
- Opioid Use Disorder
- Positive status for Human Immunodeficiency Virus (HIV) and Acquired Immune Deficiency Syndrome (AIDS)
- Post-Traumatic Stress Disorder (PTSD)
- Seizure disorder, including epilepsy
- Terminal illness with prognosis of less than 12 months to live
- Tourette Syndrome

Qualified patients can designate up to two different caregivers, who must be registered by the states, to physically pick up and deliver their cannabis products.

Regulators maintain a public list of practitioners who participate in the state's medical cannabis program. The actual number of practitioners is larger, because they are not required to publicly announce their participation.



OVERVIEW OF ADULT USE REGULATIONS

C.R.E.A.M.M.

The New Jersey Cannabis Regulatory, Enforcement Assistance, and Marketplace Modernization Act legalized adult use cannabis in the Garden State, and paved the way for the creation of the regulations that govern the emerging adult use market.

Adults who are at least 21 years old may legally purchase cannabis in New Jersey, as of April 21, 2022.

Retailers

Licensed retail businesses may purchase cannabis and cannabis products from cultivators, manufacturers or wholesalers, in order to sell directly to the general public.

Retailers are allowed to sell up to 1 oz. of flower, 4 grams of concentrate or a total of 1000mg of THC in edible form, in a single transaction.

Retailers may also have designated consumption areas, but only if they first obtain state and local approval.

Cannabis Products

Manufacturers may make cannabis concentrates in both liquid and solid form, cannabis-infused products topicals and shelf-stable edibles.

No edible may be in the shape of, or a shape bearing the likeness or containing characteristics of, a realistic or fictional human, animal, or fruit, including cartoons or other artistic renderings.

Edibles may not contain more than 10 mg of THC and no package may contain a total of 100mg.

Vape products may not include inactive ingredients known to be harmful, including:

- Polyethylene Glycol
- Propylene Glycol
- Vegetable glycerin, glycerine or glycerol
- Vitamin E acetate or tocopherol acetate
- Acetic acid

Any other ingredient listed in the August 5, 2019, published Food and Drug Administration Established List of Harmful and Potentially Harmful Constituents in Tobacco Products and Tobacco Smoke, or the Food and Drug Administration

Notice of Proposed Additions to the Established List of Harmful and Potentially Harmful Constituents in Tobacco Products and Tobacco Smoke, which is incorporated herein by reference, as amended and supplemented.

Authority

The Cannabis Regulatory Commission reviews and approves all license applicants. The CRC will initially issue a conditional license, after which the applicant will have to secure property with local municipal approval.

The Commission has five members. Three, including the chair, are selected by the Governor. The Senate President and Speaker of the General Assembly each get to select a commission member. The Senate shall have the right to confirm the Governor's reappointments or subsequent appointments from his original three. Commissioners serve five year terms.

License Limits

License holders and applicants may only have one open and pending cannabis license application for each class of license at any one time. Applicants may abandon a license application, with written notice to the CRC in order to submit a new application.

The state began a 24-month period on Feb. 22, 2021 during which a license holder and its owners and principals may only concurrently hold one cultivation and one manufacturing license. License holders may only hold one retail license, one distributor license, or one delivery license, and may not hold any other license types concurrently.

After the expiration of the two-year window, on Feb. 23, 2023, a single license holder may concurrently hold single licenses for cultivation, manufacturing, delivery and retail. Distribution license holders may still not hold any other license types.

The holder of an expanded ATC license, which is an ATC that has been authorized to expand into adult use, may concurrently hold an adult use cultivation, manufacturing and three retail licenses.

A license holder can also hold up to three testing lab licenses, but not any other cannabis license type.

Management Services Agreements

The terms of the agreement, including interest rates, returns and fees shall be commercially reasonable and consistent with the fair market value based on comparable agreements. The CRC may determine whether or term in the agreement is commercially reasonable or consistent with the fair market, based on the current valuation of similar products or services in the state or other states with legal cannabis markets, as well as markets similar to cannabis, including horticulture or agriculture, pharmaceutical drug manufacturing and the sale of pharmaceuticals or alcohol.

Management services contractors may only contract and provide services to up to five license applicants or holders.

MSAs must include the ability for either side to terminate the agreement with due notice. They must also be renegotiated at arms-length at least once every five years.

MSAs may not include a security interest in any cannabis businesses being operated or in any assets of the license holder. They also may not include any ownership interest or future or contingent right to obtain ownership interest in the business.

They may also not include any provisions that create an unfair advantage over license applicants or holders are prohibited. This includes terms that set excessive fees or profit percentages, or excessive requirements to purchase the contractor's products, or any term that would grant the contractor with the right to override any decisions about strategic planning or transfer of ownership interest.

Financial Source Agreements

Financing agreements may not include terms that are commercially unreasonable or are not consistent with fair market values, as determined by the Commission based on current valuations of loans in similar markets.

Financial sources may provide funding for up to seven license applicants or holders.

FSAs may not grant ownership interest in the license holder, but may grant a future or contingent right to obtain an ownership interest in the cannabis business. Loans from the financial source may not have interest rates that exceed 20%.

FSAs also may not allow financial sources to overrule any decisions about strategic plans or transfers in ownership.

Microbusinesses

Microbusinesses must be completely owned by individuals who have lived in New Jersey for at least two years. At least 51% of the owners, directors, officers or employees shall reside in the same municipality or a bordering municipality as the location of the business. Microbusinesses are intended for at least 10% of all license holders.

Microbusinesses may not occupy more than 2,500 square feet and can have no more than 10 employees at any one time. Microbusiness manufacturers may not receive more than 1,000 pounds of dried flower each month for processing, and dispensaries may not not acquire any more than the equivalent of 1,000 pounds of dried flower in a month.

Microbusiness licenses cannot be sold or transferred, but the license holder can apply to convert it into a general cannabis license type, such as cultivation or retail.

Transport and Delivery

Operators must insure any delivery or transportation vehicles with no less than \$1,000,000 of liability for each occurrence or accident. Vehicles cannot display brand markings or anything else that might signify that cannabis is inside. The cannabis itself must be kept in a locked box during transport. The vehicle must also be equipped with a GPS tracking device.

Delivery cannot be made with the use of an unmanned vehicle, such as a drone.

Municipalities may ban delivery operators from reaching customers within them, but the municipalities cannot bar delivery operators from traveling through the town or city.



NEW JERSEY CANNABIS REGULATORY COMMISSION

(609) 376-7300

crc.info@crc.nj.gov

[Contact Page](#)

Commission meetings are normally held monthly and broadcast via Zoom. [Details here](#)



Dianna Houenou - Chair

Served as senior policy advisor and associate counsel in Governor Phil Murphy's office prior to being appointed to the New Jersey Cannabis Regulatory Commission. In that capacity she advised the governor on policy and legislative issues concerning criminal justice, military and veterans, community affairs, and immigrants' rights. Dianna was policy counsel with the American Civil Liberties Union of New Jersey.



Sam Delgado - Vice Chair

Worked for Verizon New Jersey for 21 years, holding positions in Human Resources, Corporate Procurement, Government Affairs, and External Affairs. He retired as vice president of External Affairs in 2019 after being in that role for 13 years overseeing municipal and county relationships, emergency management, public policy, customer service, public relations, and corporate philanthropy.



Charles Barker

Served as Constituent Advocate and Projects Specialist for the People on behalf of the Office of U.S. Senator Cory Booker. In his four years in that position he managed several policy areas, among them: cannabis, criminal justice reform, economic and small business development, and financial services.



Krista G. Nash

From Volunteers of America Delaware Valley where she served as the Director of the PROMISE Program. In this capacity, Krista worked to meet the unique needs of individuals exiting the criminal justice system with co-occurring disorders.



Maria Del Cid-Kosso

Was the Director of Policy and Legislative Services at the New Jersey Department of Health (NJDOH).



Jeff Brown, Executive Director

Served as assistant commissioner at the New Jersey Department of Health, overseeing the Division of Medicinal Marijuana. Before entering the field of public policy, he worked on a number of electoral campaigns including Joe Sestak's successful primary bid for Senate in 2010, for Barack Obama's grassroots organization Organizing for America, and President Obama's re-election campaign in New Hampshire in 2011.



Toni-Anne Blake, Communications Director

Tonianne.Blake@crc.nj.gov

P: 609-376-7327

LEADING TRADE ASSOCIATIONS AND ADVOCACY GROUPS

New Jersey CannaBusiness Association

Edmund M. DeVeaux, President

ed@newjerseycannabusiness.com

Trade and advocacy group open to all cannabis operators and ancillary services.

New Jersey Cannabis Industry Association

Dara Servis, Exec. Dir.

dservis@newjerseycia.org

Trade and advocacy group open to all cannabis operators.

New Jersey Cannabis Trade Association

Shaya Brodchandel, President

njcannabistrade@gmail.com

Trade group for the 11 Alternative Treatment Centers in NJ.

Coalition for Medical Marijuana - New Jersey

Ken Wolski, Executive Dir.

kenwolski@gmail.com

Advocacy group for cannabis medical patients.



SOCIAL EQUITY OVERVIEW

When reviewing applications, the CRC will prioritize those that come from social equity, diversity based, or impact zone applicants. Prioritized applicants will be reviewed before others regardless of when the application is submitted. Microbusiness applications will also be prioritized.

CRC staff have repeatedly affirmed that applications will be accepted on a continuous rolling basis and shall be reviewed, scored, and approved in the following order:

1. Social Equity Businesses, ordered by first in time, that:

- a. Have submitted a conditional license application for a microbusiness;
- b. Have submitted a conditional license application for a standard business;
- c. Have submitted a conditional license conversion application;

2. Diversely Owned businesses, ordered by first in time, that:

- a. Have submitted a conditional license application for a microbusiness;
- b. Have submitted a conditional license application for a standard business;
- c. Have submitted a conditional license conversion application;

3. Impact Zone Businesses, ordered by first in time, that:

- a. Have submitted a conditional license application for a microbusiness;
- b. Have submitted a conditional license application for a standard business;
- c. Have submitted a conditional license conversion application;

4. License applicants receiving bonus points pursuant to N.J.S.A. 24:6I-36.d(2) and the Notice of Approval, ordered by first in time, that:

- a. Have submitted a conditional license application for a microbusiness;
- b. Have submitted a conditional license application for a standard business;
- c. Have submitted a conditional license conversion application;

5. All other applicants for conditional licenses, ordered by first in time, that:

- a. Have submitted a conditional license application for a microbusiness;
- b. Have submitted a conditional license application for a standard business;
- c. Have submitted a conditional license conversion application;

6. Social Equity Businesses, ordered by first in time, that:

- a. Have submitted an annual license application for a microbusiness;
- b. Have submitted an annual license application for a standard business;

7. Diversely-Owned businesses, ordered by first in time, that:

- a. Have submitted an annual license application for a microbusiness; Notice of Application Acceptance
- b. Have submitted an annual license application for a standard business;

8. Impact Zone Businesses, ordered by first in time, that:

- a. Have submitted an annual license application for a microbusiness;
- b. Have submitted an annual license application for a standard business;

9. License applicants receiving bonus points pursuant to N.J.S.A. 24:6I-36.d(2) and the Notice of Applications, ordered by first in time, that:

- a. Have submitted an annual license application for a microbusiness;
- b. Have submitted an annual license application for a standard business; and

10. All other applicants for annual licenses, ordered by first in time, that:

- a. Have submitted an annual license application for a microbusiness;
- b. Have submitted an annual license application for a standard business.

Businesses can be certified as minority, woman, or veteran-owned by the Division of Revenue and Enterprise Services in the New Jersey Department of the Treasury. In order to qualify for any of these certifications, the business must be at least 51% owned by a member of the respective class. One or more members of that 51% must control the management and daily operation of the business.

Impact Zone Business

More than 50% of the ownership interest is held by a current resident or residents of an impact zone who have lived there for three or more consecutive years at the time of the application.

The business must also present a plan to ensure at least 25% of employees live in any of the state's impact zones, with at least 25% of those employees living in the same impact zone in which the business resides. The business has 90 days after it begins operation to meet those employment goals or face license suspension or revocation.

Social Equity

More than 50% ownership interest must be held by either individuals who have lived in an economically disadvantaged area for five of the last 10 years, or have a household income that is no more than 80% of the median income in the state. In 2020, New Jersey's median household income was \$85,245 according to the [U.S. Census](#), making the social equity threshold \$68,196.

Alternatively, a business can also qualify for social equity status of more than 50 percent of the ownership is held by individuals with at least two cannabis- or hashish-related disorderly persons offenses, or at least one related indictable offense.

CREAMM established the Office of Minority, Disabled Veterans, and Women Cannabis Business Development as part of the CRC.

Part of the CRC's mandatory report to the governor and legislature, shall include information concerning racial, ethnic, disabled veteran, and gender diversity in the individuals issued and currently holding permits issued by the commission, the number of permit applications received from businesses owned by minorities, disabled veterans, and women and the number of such applications that were approved, the business development initiatives undertaken by the Office of Minority, Disabled Veterans, and Women Cannabis Business Development.

OTHER REGULATORY REQUIREMENTS

Seed to Sale Tracking

New Jersey signed a contract with Metrc for track and trace services in March 2022. All adult use and medicinal cannabis cultivation, processing, and retail point of sales must be traced using the state designated system provided by Metrc. Prior to this contract, New Jersey had a decentralized track and trace system, where each medical cannabis provider could choose their own system.

Lab Testing

Four testing labs have been licensed by the CRC:

- Green Analytics East - greenanalyticsllc.com
- New Jersey Cannalytics - uscannalytics.com
- Sriven Labs
- Trichome Analytical - trichomeanalytical.com
- Required testing procedures are defined in The New Jersey Administrative Code ([NJAC 17:30-16](#)).
- As of September 2022, New Jersey did not have its own testing standards, but instead [has borrowed interim standards](#) from the Maryland Medical Cannabis Commission.

Facility Security

New Jersey has detailed cannabis standards in state code as follows:

- All locations – [NJAC 17:30-9.10](#)
- Cultivator-specific – [NJAC 17:30-10.1](#)

Training

Each owner, principal manager, employee, and volunteer that handles cannabis must complete at least eight hours of on-going training each year. Requirement details are provided in [NJAC 17:30-9.8](#)

Regulations and Laws

- [Jake Honig Compassionate Use Medical Cannabis Act](#)
- [Cannabis Regulatory, Enforcement Assistance, and Marketplace Modernization \(CREAMM\) Act](#)
- [New Jersey Administrative Code 17:30](#)
- New Jersey has proposed a new set of regulations, the comment period [closes Sept. 30, 2022](#).

MARKET ANALYSIS

Overall, we believe there is more opportunity in New Jersey's legal cannabis market than almost any other in the country. This comes down to three factors: The state's underground market has already created a high consumer interest in cannabis, the legal market is vastly underserved, as it only has 19 dispensaries for 9.3 million people, and the state's regulation scheme has repeatedly proven to be thoughtful and responsive to changing market conditions.

As promising as New Jersey can be for those seeking to crack the legal cannabis market, it is our observation that not everyone is experiencing the market in the same way. This is a critical fact, since the state's regulatory regime was actually built to serve multiple constituencies, each with different needs and desired outcomes. These varying groups are: established multi-state operators, experienced new license holders, aspiring industry entrants. Here, we will address the concerns of each group individually.

Established multi-state operators

Managers of facilities established before the April 2022 conversion to adult use tell us they are almost uniformly doing a booming business. As of this writing, in late September 2022, there were only 19 operating dispensaries and 14 active cultivator licenses. When dispensaries receive regulatory approval and to adult use sales, operators tell us they see no appreciable decline in customer volume in their existing stores, even if they are a relatively short distance apart.

"We're not seeing much of a drop off when new dispensaries open," said Rebecca Conti Koar, senior vice president for Investor relations at Ascend Wellness, which operates a cultivation facility and three adult use and medical dispensaries. "The market's really been able to absorb that. And I think that'll happen for a while."

Anecdotally, operators we've spoken to believe that the majority of their customers are experienced cannabis consumers interested in relieving themselves of exposure to illegal activity and those looking for a broader selection of products than those offered by their local underground dealer. Under those circumstances and for those customers, legal operators tell us that the state's cannabis retail sales tax, pegged at 6.625%, is low enough that it does not dissuade customers switching from their underground dealer.

Multi-state operators also tell us that they are seeing very few customers coming from New York state to Northern Jersey, but Southern Jersey has experienced a boom of Pennsylvania residents visiting dispensaries. While operators are not able to track adult use customer addresses, some companies have used anonymized cell phone tracking, or simply take a regular census of license plates in parking lots.

"Slow growth" is the watch phrase for established cultivators, which are entirely owned by multi-state operators in New Jersey. This is for three reasons. First, for some it is a reaction to past experience in other states like Massachusetts where independent dispensaries did not open as fast as MSOs could expand their grow capacity. But second, because established cultivators generally do not expect the state's total number of dispensaries to expand significantly until mid- or late-2023. Finally, it is likely that MSOs are enjoying tremendous margins in the state, as retail flower per pound currently averages well over \$6,000. Many MSO-owned dispensaries are busy not just on weekends, but also weekdays, and producing more cannabis would likely only lower the price, decreasing the gonzo profits MSOs are using to fuel growth in more competitive states.

"One of the big challenges we see in Jersey is that all of the cultivators are owned by large MSOs," said cannabis investor and advisor, Kris Krane. "They are going to keep prices high as long as they are the ones who control the market, and the MSOs are focused on scale and efficient production."

Union organizers tell us that while New Jersey law requires every cannabis facility to sign a labor peace agreement (LPA) with a union, this has not translated into a broad worker unionization movement in established cannabis companies. While some cannabis companies have made it difficult for union organizers to connect with workers, both operators and unions tell us that worker turnover is a consistent problem, with 30% annual turnover considered "low" among operators we've spoken to.

“The problem with organizing is that you need people to stick around,” said Hugh Giordano, director of organizing for United Food and Commercial Workers Local 360. “People feel there’s no hope. Instead of people reaching out to us early, they are telling us, ‘I just want to quit.’ It’s really about getting workers to stick around, there’s a huge turnover problem there.”

With consistently high turnover rates, unions have had trouble recruiting workers to organizing drives, since many quit before they can assist with organizing. Similarly, operators, especially those in denser Northern Jersey, where jobs are more plentiful, have had trouble filling low-skilled positions.

Experienced new license holders

Of the 351 conditional licenses awarded thus far, some unknown minority percentage are managed by teams with previous operating experience in other states. All of the conditional licenses awarded went to economically disadvantaged owners, although some of those owners have signed operating agreements or investment deals where the operations have been handed off to leaders with previous cannabis business experience.

We expect these teams to be the ones to open soonest – if at all. A few dispensaries may be operational by the end of 2022, but most will open in the first or second quarters of 2023. We have also spoken to a handful of conditional manufacturer and cultivation license winners who believe they will start extracting and/or have plants in the ground by early-2023, with first crops available in the summer of 2023.

Experienced operators and MSOs already established in New Jersey tell us they believe there is enough demand for legal cannabis that the market could absorb as many as 150 dispensaries before the market would become competitive for customers.

New Jersey is, as discussed in more detail below, nominally an unlimited license state, but because municipalities have so much power in the state, siting a license is a considerable difficulty. A key skill for an experienced operator is anticipating the need to and understanding how to work with local governments as they seek to locate a facility.

Operators we spoke to expect wholesale market prices to decline somewhat in 2023 as the established operators add more capacity to serve new dispensaries. While more dispensaries will create more demand, we believe that since established operators will need to begin competing for dispensary business – and will no longer be operating in a closed loop – that competition will be enough to drive wholesale prices down moderately.

“New Jersey may have the most expensive wholesale market,” said Todd Johnson, head of New Jersey operations for Justice Grown. “That all does come down to supply in the market. There’s 12 operators currently cultivating. There needs to be more. That’s not a radical assessment.”

Aspiring industry entrants

A major policy component of New Jersey’s legalization of adult use cannabis sales was to open the market to economically disadvantaged and diverse business owners who may have either been impacted by the War on Drugs, or may be interested in shifting from working in the underground to the legal marketplace. As a result, the entire first round of licenses were awarded to social equity and economically disadvantaged applicants – many of whom have little or no knowledge of how to manage a legal cannabis business, and sometimes no knowledge of how to manage a legal business at all.

As a result, some unknown, significant percentage of conditional licenses were awarded to people who have a steep learning curve ahead of them with few available economic resources. It is very likely that of the 351 conditional licenses awarded, as many as half will never open businesses.

“As the state has granted more of these conditional licenses, it has really muddied the waters for investors and capital providers. I don’t think the market was ready for them to issue basically unlimited licenses. We’ve had capital pull

back and say we'll just wait on New Jersey for now," said Scott Delgado, co-founder and managing partner of cannabis investor Hawkeye Capital Markets in New York City.

Aspiring industry entrants have three major problems to solve: They must acquire enough equity capital to open, they must assemble a management team capable of opening and operating their facility, and they must obtain real estate for their facility.

Since the post-pandemic market crash in spring 2022, cannabis investors have begun focusing on experienced cannabis management teams, shunning new business entrants. Similarly, experienced cannabis managers, head growers, and marketers are in a seller's market today, as even medium-quality employees are in high demand, affording them the ability to hop from job offer to job offer around the country.

Finally, acquiring real estate has become a major challenge for all new operators in New Jersey, especially inexperienced license holders, as municipalities have created a myriad of zoning rules and internal approval processes that can hold deals up for weeks if not months.

Real estate problems

New Jersey has a three step cannabis licensing process where first, the state awards a "conditional" license, then a municipality must approve a business in their town, and then, once a facility is built out and inspected by the state, state regulators award an "annual" license to the operator. Each of these steps contains pitfalls for any new license holder, including ones that can be unexpectedly expensive or insurmountable for inexperienced, new entrants.

First, only about 160 of 565 municipalities in New Jersey have chosen to allow cannabis businesses in their town. But even among these, towns often have very restrictive zoning requirements limiting possible locations, have councils resistant to actually approving cannabis businesses, or have town bureaucrats that will slow-walk applications before they can be approved by councils. Even after approval, many municipalities – especially in Northern Jersey – are requiring "siting fees" as high as \$25,000, license holders tell us, which can quickly drain a new licensee's capital reserves.

Some conditional license holders are learning that while they went through the state approval process, other applicants, particularly those with deep pockets, have preemptively gotten approval at the municipal level. The state does not limit licenses, but municipalities can, which makes it possible for companies to monopolize municipal access.

Even if a conditional license holder finds a town supportive of their business, New Jersey has a tight real estate market where many landlords are unwilling to sell their properties. In terms of rent, all landlords are trying to maximize their income. As such, we have also heard repeatedly that some landlords are asking for inflated rates based on the assumption that the cannabis market is a cash cow. This problem can be doubled, since some landlords have properties mortgaged to banks that will not allow a cannabis company tenant.

Finally, for cultivation conditional license holders who choose to build a new facility from scratch will encounter significant construction supply chain problems. We have been told by multiple teams that some equipment for a buildout, especially electrical panels needed to manage lighting and HVAC systems, are on a 25-30 week wait list. For smaller, lightly capitalized license holders, such a wait can be disastrous, as they have to pay rent or mortgage payments and retail a team while waiting for the build out.

For these reasons, we expect that many dispensaries will not open until the third quarter of 2023, and many cultivators may not get plants into the ground until late 2023 with their first crops coming up for sale in 2024.

Here, a number of experienced operators have told us that while New Jersey is an unlimited license state, municipalities are a speed break on growth, making the state behave more like the Massachusetts market, which is similarly restricted by municipality limitations, despite being a nominal unlimited license state.

Advantageous Regulatory Structure

We believe that the regulatory structure New Jersey has adopted, with its strong Cannabis Regulatory Commission (CRC), gives the state a competitive advantage over other markets. New Jersey has empowered the commission with the ability to adopt rules, set fees, staff the agency, determine how licenses are awarded, and to enforce cannabis laws, including to withdraw licenses. While the legislature retains the right to create and change license types, the CRC's unusual power allows it to move quickly and to respond to stakeholder needs appropriately.

So far we've seen New Jersey's CRC act quickly to stakeholder interests, such as when it made a snap decision (for government, anyway) in late March that it would legalize adult use sales by April 22, 2022. It has also moved quickly to approve conditional licenses and to respond to applicant concerns about the process.

If the CRC continues to operate this way, we believe cannabis businesses of all sizes in New Jersey will benefit.

