THE WHITE PAPER SERIES
On
Responsible Marijuana Retailing

A Paper On:

MARIJUANA RETAIL STORE VOLUMES AS MORE STORES OPEN
November 2018
By The Coalition to Save St. Mary's Neighborhood

An Introductory Note on Methods and Sources

We have built a database of 2,313 retail and medical marijuana stores in Colorado, Oregon, and the state of Washington, including address. In the state of Washington, all retail stores file monthly sales numbers with the Department of Revenue, and these monthly sales numbers allow us to do careful analysis of sales growth over time. In both Colorado and Oregon, various news articles, marijuana business publications, and marijuana web sites, reviews, and blogs identify large and interesting stores; for some of these, good sales estimates are available. More detail is contained at the end of this white paper.

Abstract

The first few stores in a state, at the beginning of legal retail sales in any given state, do have long lines. But, the monthly revenues in these early stores *continue to grow*, even as more stores are added in the region. In other words, more stores does not reduce customer volume in the early stores.

Many people in Massachusetts, examining the crushingly large customer volumes in Leicester during its first week of opening, assume and claim – without any empirical data – that volumes will decrease once more stores open up. One town official said, "the solution is to open more stores." An executive at a medical dispensary converting to retail said, "there will be long lines initially; as more stores open, it will be just an errand."

This is a complete myth, to claim that "the answer is more stores." Not only is it not at all how emerging retail markets typically operate, it is completely contradicted by a careful analysis of actual store openings.

Summary of Approach

We systematically examined the four general situations that, collectively, provide a comprehensive view on this issue:

1. The very first store in the entire state of Washington to open, and its volume as another 85 stores opened;

2. All stores that opened in the first year of legal retail marijuana, and what happened to their volumes as new stores opened;
3. A comparison of volume growth in urban stores compared to non-urban stores as new stores open; and
4. A study of an urban store that opened two years after the beginning of legal retail marijuana in Washington, during a period of continued opening of other new stores.

In all four of these cases, monthly sales volumes per store continued to grow vigorously, even as new stores were rapidly opened.

Specific findings:

1. At City Cannabis, the first store, monthly sales grew almost SIX-FOLD in the first six months, even though the state of Washington went from one store to 86;
2. Among stores studied during the first twelve months of legal retail sales, average monthly volume of all stores doubled, as the number of stores grew from 18 to 155;
3. Large non-urban stores in their first twelve months had volumes triple while the three urban stores had their volumes increase thirteen-fold, even as the number of new stores added over the twelve-month period rose from 15 to 140; and
4. One store in particular, that shares some site and catchment-basin characteristics with the proposed St. Mary's store in Brookline, Massachusetts, opened two full years after retail sales started and had monthly sales grow from $120,000 to $1.1 million in its first year, even though more than one hundred additional new stores were added in that period.

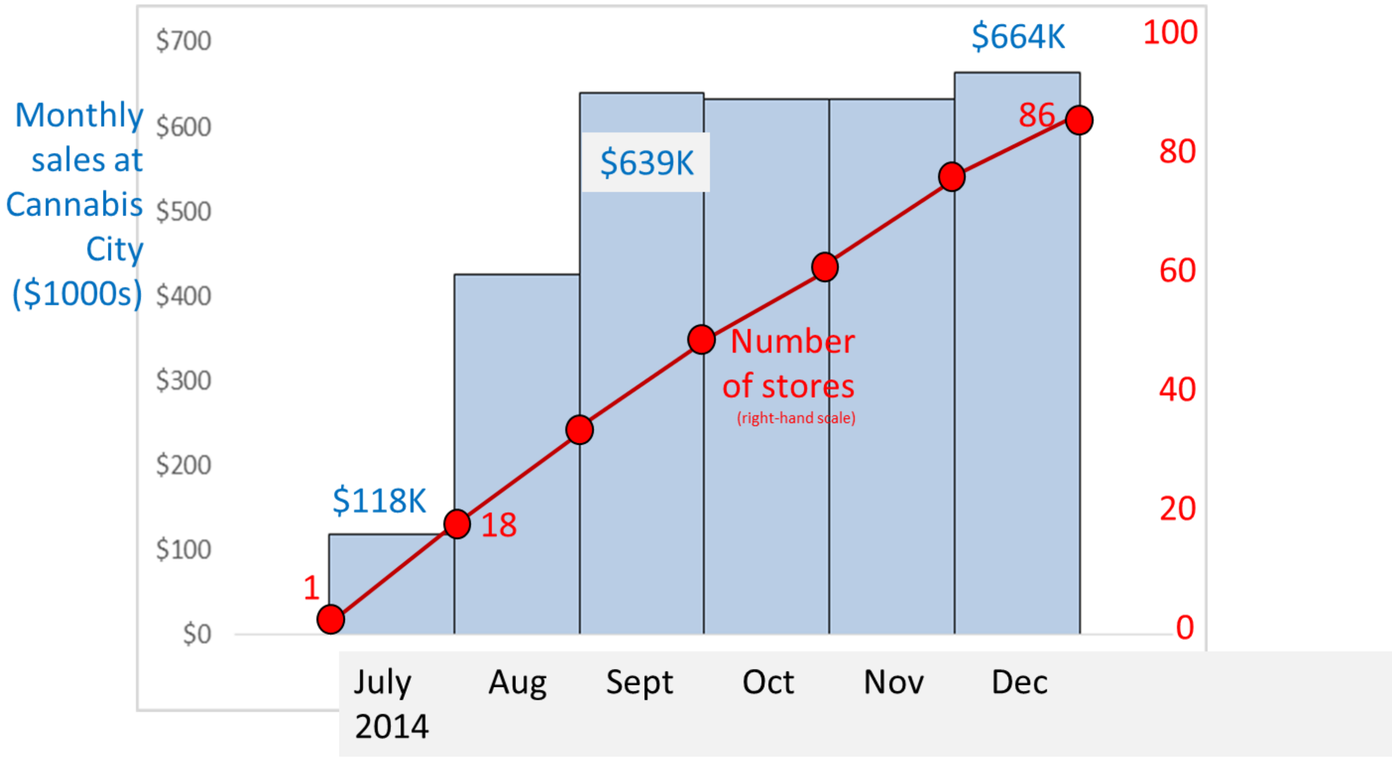
Case Study 1: The Very First Retail Store in Washington

In the South Seattle neighborhood, Cannabis City on 4th Avenue South was the very first shop in the state to open, on July 8, 2014. As the *New York Times* noted, buyers "stood in line for three hours" waiting to buy marijuana. After a few days, the long lines shortened, but sales stayed brisk. The store's sales that first month were $119,000; and the state opened another 17 stores, bringing the total to 18 by the end of July.

In August, another 14 stores opened, almost doubling the total to 32 stores. Yet, Cannabis City's monthly sales jumped to $426,000, more than triple the first month. In September, another 15 new stores opened up, but Cannabis City sales grew again, to $640,000. The long lines were mostly gone, but the steady heavy volume brought traffic and crowds into the neighborhood every day, seven days a week.

Volume in that third month of operation, September 2014, was FIVE TIMES the volume the entire first month, even though the state had gone from one legal store to 47. And, sales growth continued at Cannabis City; by the end of its sixth month of operation, monthly sales were $664,000, up almost six-fold from the first month's volume, even though the state now had issued 86 licenses, up from the 18 active in July 2014, the first month.

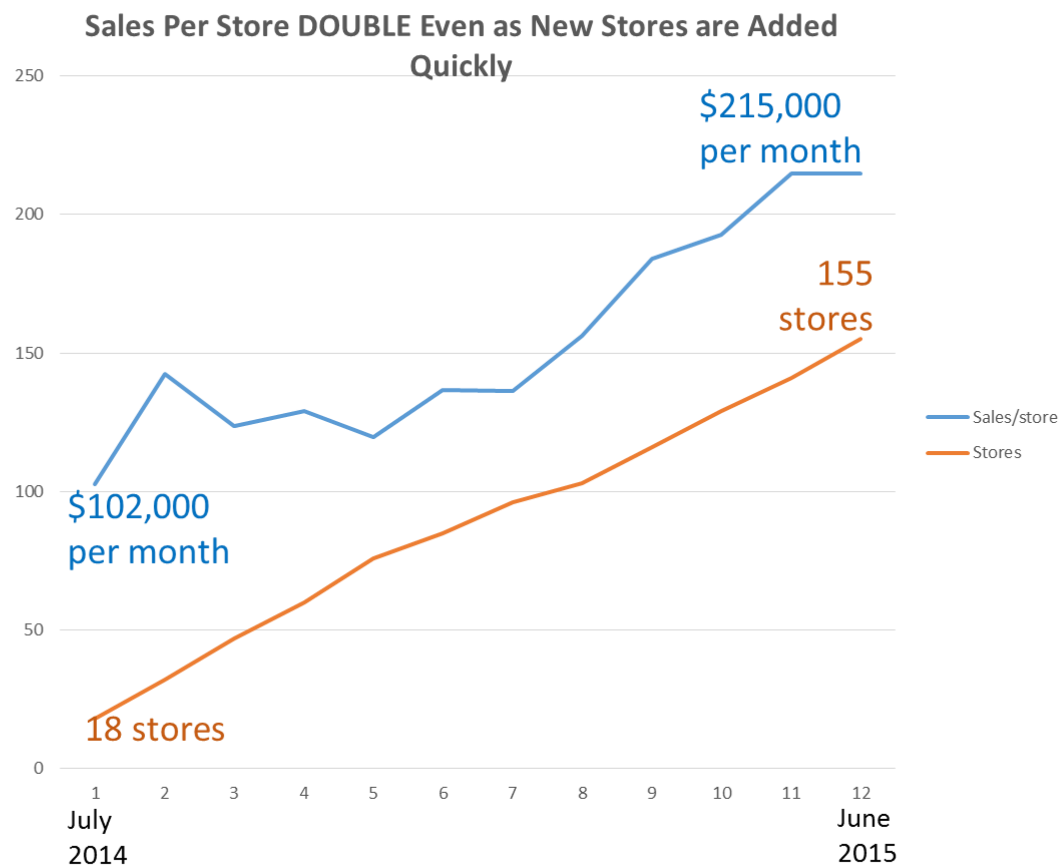
The lesson is clear: more new stores do not "relieve the pressure," they do not "solve the problem." In the Cannabis City case noted above, and in the broader data sets we cover below, the pattern is exactly the same: customer volume keeps increasing at individual stores, even as new stores are added. This can be seen in the graph below of Cannabis City's monthly sales its first six months of operation. It was store #1, and five more opened that same week of July 6-12, 2014. By the end of July, there were 18 stores open. By the sixth month, there had been 86 total licenses issued, but Cannabis City's sales skyrocketed the first three months, and continued to grow steadily after that.



Case Study 2. Will More Stores Help?

Second, let's look at the "more stores will help" thesis. To those of us who have spent time carefully looking at the data, and examining the actual sales patterns of hundreds and hundreds of stores, one statement made in Leicester stood out in stark relief: the Town Administrator pleaded with the angry citizens for patience, noting that in the next month, a few more stores will open in Massachusetts and "At that particular point, we expect this [volume] will begin to die down." It's just not true.

Before we provide some commentary, the chart below shows the number of new stores added each month in the state of Washington in its first twelve months of retail legalization (July 2014-June 2015) and the average monthly revenue per store of every store operating in that first year.



The pattern is obvious: the state opened 18 stores the first month of legalization, and the rate of license issuance stayed high, increasing the total number of stores five-fold, to 155 at the twelve-month mark. But, there was so much demand in the market, and so much market stimulation, that the average monthly revenues per store did not decrease, they did not stay flat, they *doubled* in just one year. (Source: Washington DOR Monthly MJ Tax Obligation Reports.)

One can do this analysis in a number of ways, such as by cohort of shop-opening vintage, by type of location, and segmented by current revenue volumes. We have. And, the answer is still the same: per-store sales grow, even as the region adds stores. At some point, this will of course slow down; demand is not infinitely inelastic. But, four years in, with 686 marijuana licenses in operation (400 retail and 286 medical), this is still the pattern. There might be daily fluctuations, and we might see this in Leicester, but the month-over-month trend is clear.

Case Study 3: Volume Growth at Urban-Area Stores

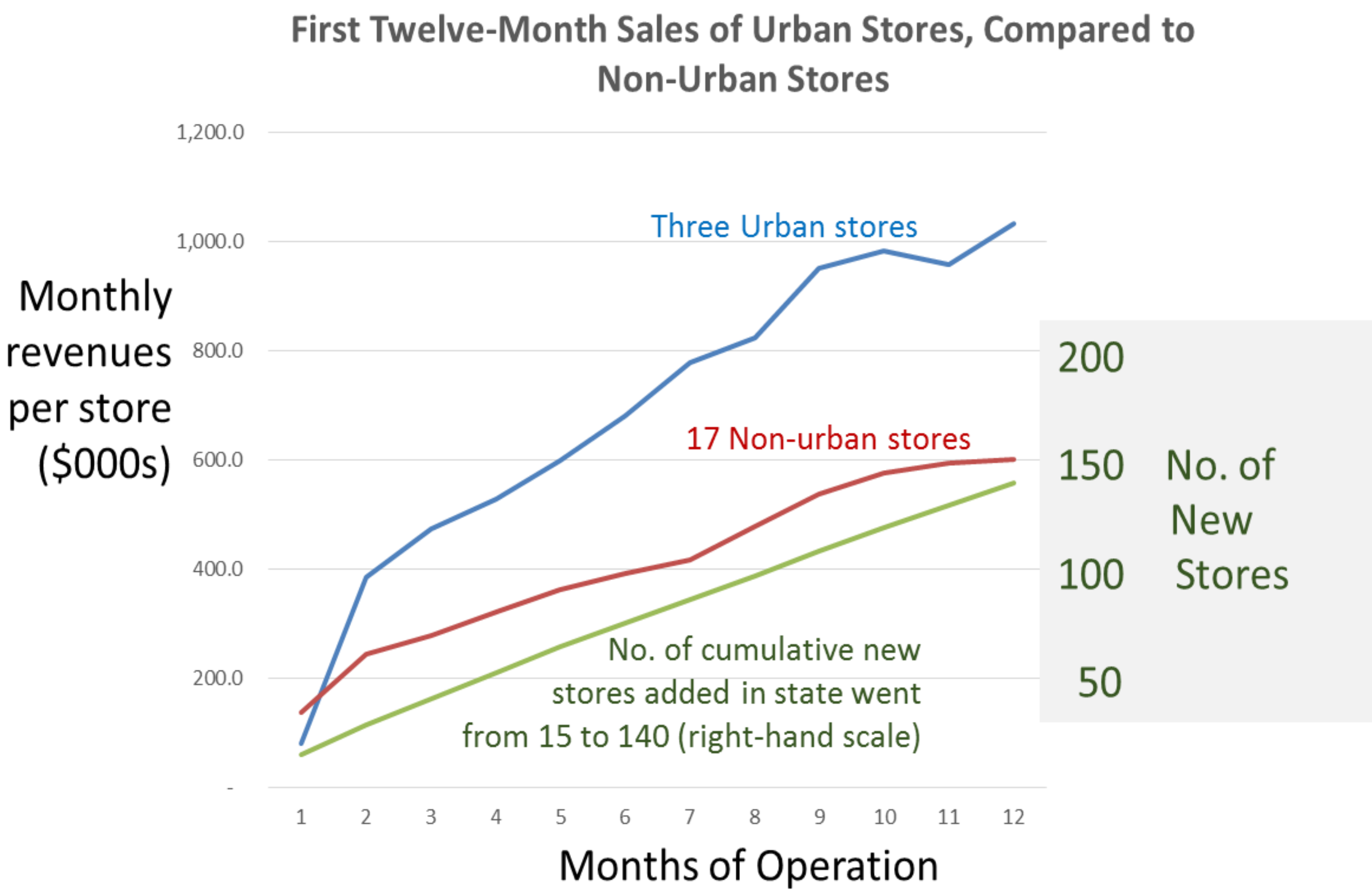
One analysis pointed up something of great import to us in Brookline, and something that can help guide responsible policymaking for zoning and siting retail marijuana. That was the relationship between the type of area a store was in, and its sales growth in its first year of operation.

Washington's Department of Revenue releases actual monthly sales volume, in dollars, for every retail licensee in the state. In the most recent trailing twelve months, the twenty highest-revenue stores range from $5.9 million (PRC in Arlington) up to the largest, $16.8 million a year (Main Street Marijuana in East Vancouver, WA). We have looked at each one closely, since they provide perhaps the best analogue to what appears to be the outcome in Massachusetts. At Washington price points, these revenue ranges translate into 180,000 to more than 500,000 customer visits a year.

Most of these large retailers are in peripheral-commuter-path suburban mall areas, a few are in truly rural or industrial areas, but three are in urban areas in metro Seattle, abutting or near other retail (Uncle Ike's 23rd and Union, Uncle Ike's on 15th, and the Have A Heart Belltown neighborhood store noted above).

We examined the first twelve months' of revenues for the twenty highest-revenue stores, and then analyzed them in two groups: the three urban stores and the 17 non-urban stores. We examined monthly average per-store revenues as more shops were added in the state. The first finding confirmed what was noted above and graphed, and what we observed in Colorado: as more stores are added, sales per store still keep going up.

What was much more notable was that the rate of growth for the urban stores was more than ***six*** times greater than for the non-urban stores. Applying these data to Massachusetts, it means that if estimates were inaccurate about Leicester, they may well be significantly much more wrong about a store near Boston itself.



The cumulative number of new stores added in the twelve-month periods went from 15 in the first month to 140 in month twelve, a big increase. The non-urban stores have monthly revenues that went from $137,000 to $601,000, a healthy 340% increase. But, these three urban stores – with large residential populations nearby, the commuting artery of East Union Street leading to the single-family home Madrona neighborhood, the hospitals on First Hill just 8 blocks away, near thriving mixed use residential neighborhoods like South Lake Union (similar to the Fenway area), and walking distance from visitor magnets like the Pike Place Market– saw average monthly revenues jump from $79,000 per store in the first month up to $1.03 million, a 13-fold increase. Again, since it bears repeating: volumes per store went up dramatically, even as the number of new stores opening went up.

The lesson is clear: put a retailer in or near an urban area with a large catchment basin of potential demand, and the result is an enormous monthly volume, and a six- to ten-fold or larger increase during the first year.

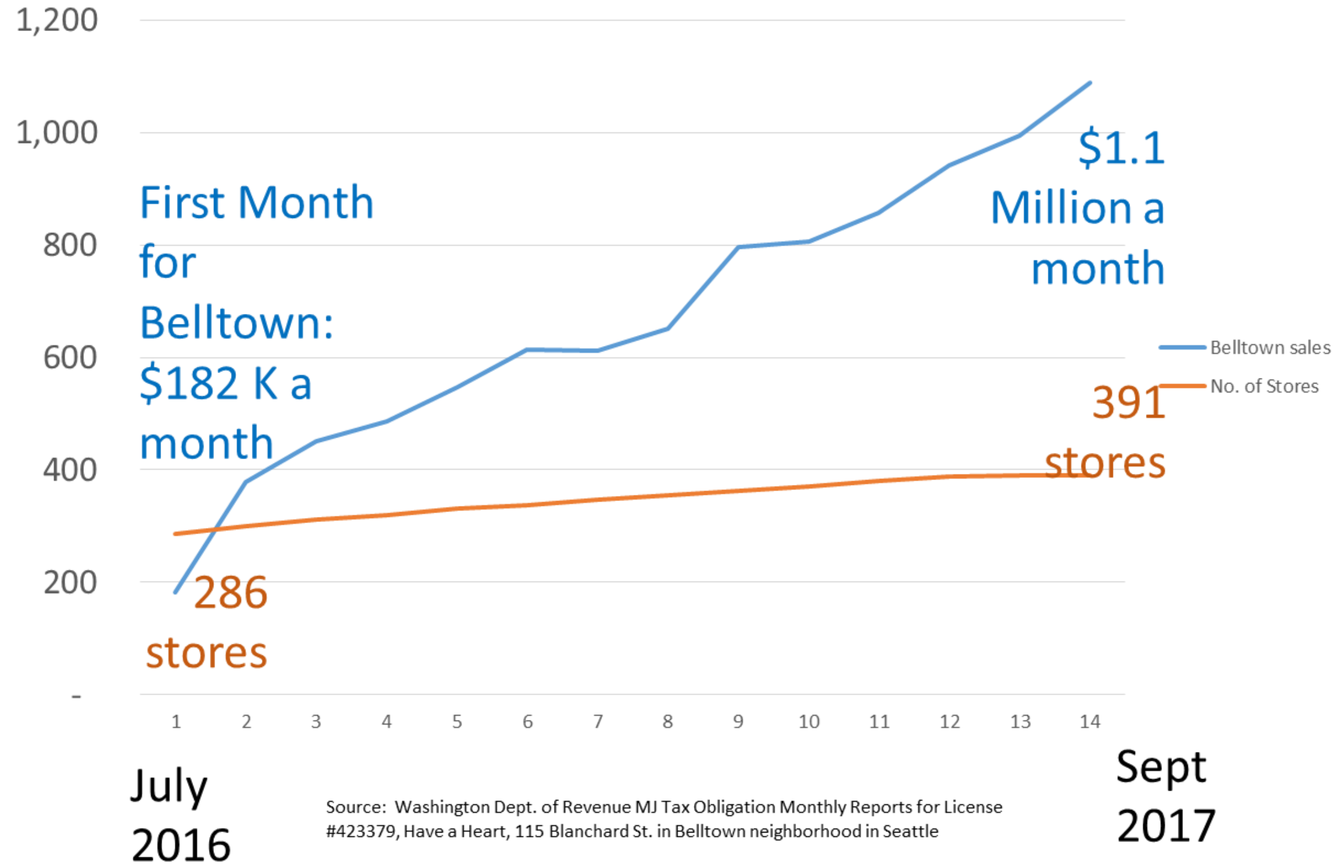
<u>Case Study 4: Have A Heart in Seattle's Belltown neighborhood</u>.
Even in those states with several years' experience in retail marijuana, projecting *forward* is very difficult. Retail marijuana is a very new industry, and forward-based projections for any one given store are hard to do. One Leicester Select Board member testified that "[Cultivate, the

retailer] was way off on their estimates. We are getting 200% or more than they told us to expect. We totally underestimated the traffic and parking situation. The traffic survey was not useful."

In Seattle, two years into full retail legalization, Have a Heart opened a store in the summer of 2016, in the Belltown neighborhood. In its first month, it did $182,000 in sales, which equates to $2.2 million a year on an annualized basis. There were already 265 stores in the state before it opened. But, its volume surprised everybody: it doubled the very next month, kept growing and growing, reaching a monthly volume of $1.1 million a month in sales, at an annualized rate of $13.1 million. That is 489% growth. At the average purchase volume of $33 in the Seattle market, this equates to 395,000 visitors, totally overwhelming its small neighborhood. Ouch. And, during that first year of Have A Heart's growth, over a hundred stores opened, reaching a total of 389.

Some comparisons between Have a Heart and the proposed St. Mary's store are useful.

	Have A Heart in Seattle's Belltown	St. Mary's proposed site
Attractive and large customer base nearby	South of fast-growing, trendy South Lake Union neighborhood	West of fast-growing, trendy Fenway neighborhood
	Within a mile of Pike Place Fish Market, over 10 million annual visitors, and cruise ship port, 1.07 million annual visitors	Within a mile of Fenway Park (3.1 million visitors), the Longwood Medical Area (8.5 mil.) and the Museum of Fine Arts (1.1 mil); total of over 12 million annual visitors
	Near office buildings	Within a mile of 200,000 workers
	Within a mile of 3 higher education facilities	Within a mile of 13 colleges and universities
Size	2,000 sq feet	6,200 sq feet in current proposal
Adjacent Parking	72 car surface lot	None
Mass transit	6 blocks from the Westlake Ave light rail stop. In between the 1st Ave and 2nd Ave high-capacity bus lines. Two bus stops on the two corners of its block	Across street from surface Green Line "C" line station. Nearest bus stop is three blocks away (Park Drive)



At the monthly volume of $1.1 million, this was equivalent to an annual rate of $13 million in revenue, or approximately 350,000-400,000 customer visits a year. These levels of numbers were a burden on the urban Belltown neighborhood, in downtown Seattle, a city of X.Y million. Similar volumes would be crushing in a residential, small-scope retail neighborhood like St. Mary's

Site Characteristics

Finally, let us make some notes on where some of these marijuana retailers are. The marijuana retailer in Leicseter is located along Route 9, just west of a Walmart. In other words, this was a district that was already capable of comfortably handling the annual traffic volume of a Walmart; Cultivate Marijuana's opening overwhelmed it. To its south is Burncoat Pond and an Audubon sanctuary, there is a lot of room around it. It has its own set of parking spaces (more than a dozen) and made arrangements with an adjacent lot for 40 more. Uncle Ike's on 23rd and Union is a stand-alone, built-to-suit building, with dedicated parking and two adjacent large lots.

The Have A Heart in Seattle's Belltown neighborhood abuts a 72 car parking lot, but even with that, its huge first-year increase in volume put enormous strains on the neighborhood ***and this strain is not lessening as more stores are added in Seattle and around the state.***

The revenue growth actually understates the growth of traffic and customers, since average retail prices for marijuana products have been falling. One academic study showed that the price per standardized "THC Serving" fell from $4.70 the first year of legal retail, to $1.80 by the end of 2017; this is a 2.5X decline. So, customer volume figures would increase accordingly.

Conclusion

At least in the first several years of legal retail marijuana, the latent demand in the newly-emerging market is so much greater than what can be served by the first few opening stores. In other words, demand grows faster than the number of stores, so sales per store keep going up ,as every single one of our four test cases showed.

The long lines at Cannabis City ebbed after a few days, as they will in Leicester. Likely, the early shoppers are those who, obviously, can afford to spend four to six hours of transit and wait time to by retail marijuana. These buyer flock to the new store, create the lines, but are likely not the major underlying demand. The major demand is the very large number of potential customers, particularly in an urban environment, who come to a store is large steady volumes, every day, seven days a week, week in and week out. While less visually spectacular than a six hour line, they represent a huge demand on traffic flow, parking, and sideway space.

And, these numbers of customer visits continue to grow, and grow, and grow, as the data above conclusively demonstrate.

Adding more shops is not the cure. Proper site choice up front is the right answer. This includes putting urban area stores in stand-alone buildings with large amounts of immediate parking, and siting them only in dense, durable, office and commercial districts that can handle the burden of the 200,000 to 500,000 annual customer visits that the urban stores in Denver and Seattle actually see.

A note on sources

Washington State's Department of Revenue releases monthly revenue and tax reports, listing sales for each separate retail marijuana license holder. The data can be viewed at the DOR web site, at the MJ Monthly Obligation reports pages. Colorado license data can be found on the State's Marijuana Enforcement Division (MED) pages. In Oregon, the Oregon Liquor Control Commission oversees marijuana, and operates Metrc, Oregon's Cannabis Tracking System.