



EAST COAST

CANNABIS UPDATE

THE EMERGENCE OF ADULT-USE CANNABIS IN THE EASTERN U.S.

The Eastern United States has had a busy year when it comes to cannabis. Starting in April 2022 with New Jersey, five states officially implemented adult-use sales programs, ranging from populous New York to tiny Vermont. With each of these markets having at least a few months of sales under their belts, it's time to check in on these states and assess how successful their respective approaches to adult-use cannabis have been.

ABOUT BRIGHTFIELD GROUP

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We combine traditional research expertise with AI-integrated social listening to provide a deeper level of consumer insights.

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New Jersey



While it has yet to disclose Q1 2023 sales (the figures will likely be released around the end of Q2 2023), New Jersey still has a solid eight months of sales data to look at since it was the first state to kick off the 2022/2023 Eastern legalization boom.

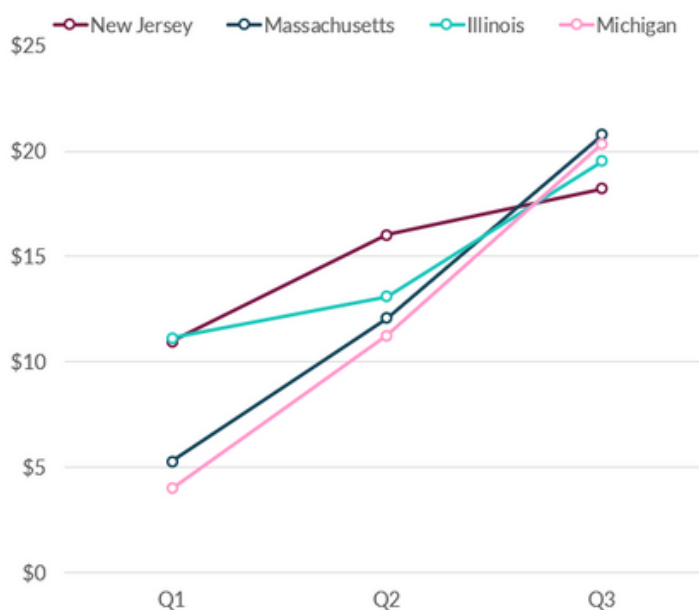
NJ'S START

New Jersey got off to a decent start, outpacing states like Massachusetts, Illinois, and Michigan on a per-adult basis during the first few months of adult-use sales. However, the growth trajectory does reveal some causes for concern.

While most states tend to see extremely rapid growth in the first few quarters after opening, sales in New Jersey started to stall fairly quickly – only increasing by 14% from Q2 to Q3 while Massachusetts, for instance, saw 72% growth over a comparable period.

ADULT-USE SALES PER ADULT RESIDENT

BY STATE, FIRST 3 QUARTERS POST-LAUNCH



Source: Brightfield Group; 2023

STALL IN GROWTH

Much of this stall can be attributed to both limited cultivation and limited retail access. The state's legalization legislation initially capped the number of large cultivators at just 37 but, according to regulators, only 17 of those facilities were operational as of early 2023 (and only 11 for adult-use purposes). This has resulted in high prices that are certainly part of the reason the market's growth has stunted and prompted the state to take action. In February, the New Jersey Cannabis Regulatory Commission opted to eliminate the license cap in its entirety, opening the door to new businesses that should help to facilitate growth over the longer term.



New Jersey (continued)

MORE DISPENSARIES NEEDED

Similarly, New Jersey only has 30 open adult-use dispensaries, just one per 242,000 adult residents – a woefully inadequate amount. For context, Massachusetts has one for every 21,000 adults while Colorado is home to a storefront for every 7,000. Even accounting for population density, New Jersey still needs to increase its retailers tenfold to get to Massachusetts's level. Though the state has seen some new locations open in the first half of 2023, based on the state's historical pace of licensing, it will likely take a while before New Jersey course corrects enough to ensure consumers have adequate retail access.

FUTURE IMPROVEMENTS

A lot of building blocks are in place. New Jersey has a low tax rate, restrictions on license holders that promote a competitive environment (one per type per entity), and a willingness by regulators to improve the system. But, it will take quite a bit of time and effort before long-time consumers have adequate reason to switch over to regulated channels. Looking at the first 9 months of sales, the state is not in a bad position but still has lots to improve on.



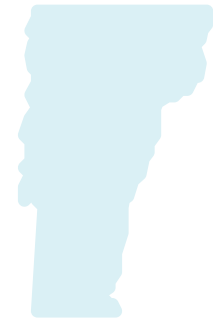
Bottom Line: New Jersey has had a decent start but continues to see growth hampered by a lack of active cultivators and retailers.

GRADE: 



Vermont

It took a while for Vermont to finally implement its adult-use sales program. Vermont legalized the possession of cannabis in July 2018 but didn't see a commercial regulatory system until October 2022.



VERMONT'S START

While it might have been a long wait, Vermont got off to a strong start. In its first six months of sales, Vermonters purchased nearly \$32 million worth of adult-use cannabis, or \$60 per adult resident of the state. For context, a standard market opening sees sales in the range of \$55-70 per adult. The state is on pace to reach nearly \$150 in sales per adult by the time a full year has passed. As such, Vermont will be the largest market opening in the east and one of the top five largest in the nation overall, surpassing expectations.

"Vermont will be the largest market opening in the east"

PER CAPITA SUCCESS

Why the success? Beyond the fact that Vermonters simply like weed, the state has adopted a robust approach to licensing. Within three months the state was home to 25 retailers and now, nine months on, it has 52 – one per 10,000 adults, a figure that many states with years of legalization in hand have failed to reach. Vermont's approach to cultivation has been similarly open – including those licensed for indoor, outdoor, and mixed growing across all license tiers, the state is home to more than 290 cultivators. Though prices have yet to lower to the level of a mature market, the state already has solid infrastructure in place and is well on its way to meeting consumer demand, even if it doesn't offer the most opportunity for companies seeking to enter new markets.



Vermont (continued)

STRICTER LIMITS

There's really only one drawback to Vermont's market and that is the potency limit. However, in most cases, the impact of these regulations is relatively minor. Flower is limited to 30% THC – a threshold that is already uncommonly surpassed – while solid concentrates can't have more than 60% THC. Fortunately, vapes are not subject to any potency restrictions, though edibles must contain less than 50 mg of THC in a unit. Other than the edibles limit, which is lower than the standard 100 mg used in most adult-use markets, these restrictions apply to very few products and have a minimal effect on the market's viability.



POTENCY LIMITS IN VERMONT

Flower
<30% THC

Raw Concentrates
<60%

Edibles
<50mg per unit

Bottom Line: With an extremely strong start to sales and lots of licenses, Vermont has already managed to create quite a robust market in less than a year, in spite of some potency limits.

GRADE: A-



Rhode Island



Rhode Island began cannabis sales in December 2022, mere months after the legislation was signed into law by the governor in May. The market got off to a low-key start, allowing five of its approved medical stores to sell to both registered patients and other consumers. Adult-use sales through its first six months – the end of May 2023 – totaled approximately \$28 million. It's on pace for at least \$70 in cannabis spending per adult resident per year, slightly above the level of a typical market opening.

STRONG START WITHOUT FOLLOW UP

Despite its adequate performance from a sales perspective, relative to its population, Rhode Island hasn't done much to fix its greatest barrier to success – a lack of retail licensing. Six months after adult-use sales began, Rhode Island only has 7 licensed retailers – only two more than when stores first opened. Taking population into account, the state is home to one retailer per 127,000 adults – more than ten times less than Vermont but still twice as many as New Jersey. The state's legislation allows for up to 33 total dispensaries, but the timeline on the rollout of additional retailers is unclear.

ADDRESSING GROWING PAINS

While its approach to retail licensing has been slow and limited, Rhode Island has not taken the same approach to growing. There are more than 60 cultivators operating in the state, and the disparity between growing and sales licenses is starting to cause issues. And the state has been slow to respond, largely because it lacked the ability to easily do so. Rhode Island opened without an official oversight board for adult-use cannabis in place and only formed its Cannabis Control Commission in May, almost six months after launch. This dedicated entity should help to get eyes on the state's issues and iron out solutions, even if it is overdue.

Bottom Line: Rhode Island has had above-average sales for a new market but suffers from a lack of licensed retailers, made worse by a higher number of cultivators and the state's slowness in creating a dedicated regulatory body.

GRADE: 



New York



Local legislators who are seeking to legalize cannabis within their own states should love New York. They don't need to look at other states to get a sense of the ideal approach to cannabis regulation. Instead, just look at what New York has done and do virtually the exact opposite. It's hard to imagine an adult-use launch going much worse than the Empire State's.

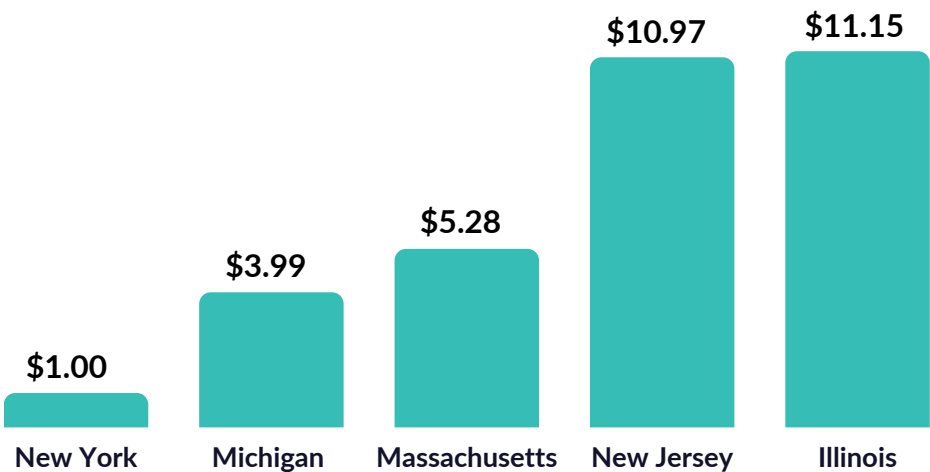
NY'S START

In April 2023, regulators revealed that, since sales officially began in the last few days of 2022, New Yorkers had purchased a bit less than \$17 million dollars' worth of regulated cannabis. This equates to just over a dollar per adult resident of the state. Over the same length of time, immediately after launch, New Jersey had \$10.97 while Illinois had \$11.15.

Even states that got off to slower starts, like Michigan and Massachusetts which clocked in at \$3.99 and \$5.28, respectively, look like they were moving at light speed in contrast with New York's, a market opening that's uptake speed resembles a sloth on sedatives.

ADULT-USE SALES

BY SPEND PER ADULT, FIRST 4 QUARTERS POST-LAUNCH



Source: Brightfield Group; 2023



New York (continued)

WHAT WENT WRONG

So, what went wrong? It starts with retail licensing. The state decided to require that cannabis retail applicants have a “significant retail presence” in New York and that they have a marijuana-related conviction. While the commitment to restorative justice is admirable, this approach did prompt a lawsuit from an aggrieved applicant that led to an injunction which prevented the state from licensing stores in five areas of the state, including Brooklyn and Central New York

While a contributor, this isn’t the cause of the launch’s failure – only 63 of the state’s 150 planned first round retail locations were impacted by the suit. No, the problems are much more systemic. From the outside looking in, it almost appears as if New York examined the obstacles that other states ran into with their own regulatory schemes and intentionally decided to run into them headfirst.

The trials started with the number of planned licenses – 150 during the first round. This equates to one retailer per 105,000 residents. States successfully displacing legacy sales have had at least five times more cannabis retailers than New York planned for. Even if the state ends up adding more later, such a dismally low starting figure ensures that it will be years before dispensaries are sufficiently widespread to make it convenient for consumers. New York City alone is able to support well over one thousand unlicensed stores while regulators are busy engaging in a sluggish dance of procrastination.



"Dismally low starting figure ensures that it will be years before dispensaries are sufficiently widespread to make it convenient for consumers."



New York (continued)

BOTCHED ADULT-USE LAUNCH

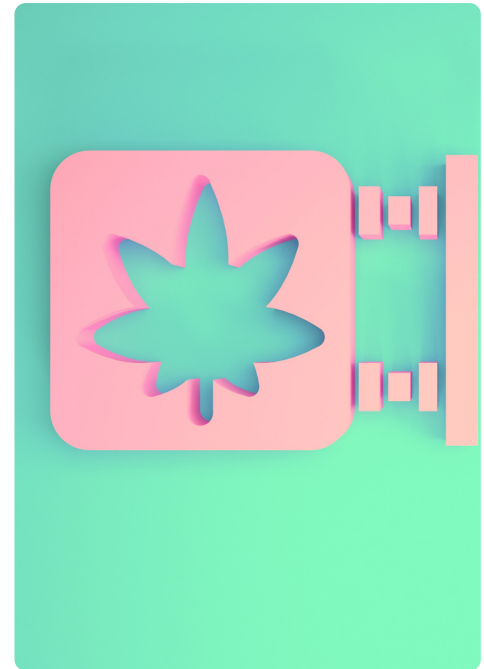
Regulators wanted the market to launch in late 2022. They opened the application period towards the end of August and granted the first applications in late November, much later than should have been the case if regulators wanted a functional market in place before the year's end.

In the middle of December, after some licenses were issued, they changed how finding a location works. Previously, the state had committed to picking selecting the properties themselves and handing them to individual stores, while now retailers themselves are required to find their own locations within a specific area and submit them to the state for approval – something of a rug pull that increased the capital costs for many already deep in the application process.

This perpetual loop of inefficiency and confusion came to a head on December 29th when a single nonprofit store opened its doors to adult-use sales. Sure, that sounds bad, but of course, a bunch more retail openings were right around the corner, right? More than five months later and only twelve stores are operating in the state.

New York regulators granted a bunch of additional licenses in early 2023. Still, considering that 36 licenses were granted in November 2022, another 30 in January 2023, and only 12 stores are operational as of June, it would be surprising if the number of total adult-use retailers even sniffs the 100-store mark before the end of the year.

And after all this chaos and confusion, social equity owners aren't even going to see that much of a benefit as New York looks poised to open the market to multi-state operators in the near future.



New York (continued)

DISCONNECT FOR GROWERS & SOCIAL JUSTICE

All of this is to say nothing of New York's cultivators, who have been hung out to dry more than a batch of the finest, trichome-covered, terpene-filled artisanal flower that one could imagine. A month prior to launch, New York cultivators and manufacturers reportedly had more than \$750 million in inventory, just waiting on the start of sales. Now, assuming they halted all operations immediately after this was true – something that's exceedingly unlikely – they only have around \$735 million worth of unsold, now 6-months old cannabis. This disconnect between retail and cultivator licenses and the pain and lost revenue it has caused can fall squarely at the feet of incompetent regulators.

New York's prioritization of restorative justice feels especially ironic considering that the state and local lawmakers are cracking down on unlicensed retailers and are planning to harshen laws against unlicensed cannabis selling, currently punishable by only a \$250 fine. Once again, a lesson has not been learned. Did the awful, violent policies of the war on drugs that sent cannabis sellers to prison for years stop the distribution of weed? Obviously not.

What has taken cannabis sales from streetcorners and the backs of cars to regulated institutions that carry safe and tested products? Effective regulations, high levels of competition, and licensing broad enough that it's more convenient for the average person to stop by a store than it is to text their dealer. It's mind-boggling that New York officials who purport to care about lifting up those hurt by America's anti-drug policies haven't realized this.



New York (continued)

FUTURE IMPROVEMENTS

If this is what state legislators and regulators wanted to be the fate of recreational cannabis in New York, then that's fine. The war on drugs has had reverberations up and down our society, particularly in marginalized communities, and working to correct those wrongs is admirable.

Many states have paid lip service to the matter but have completely whiffed in the follow through, and New York placing social justice at the forefront of their regulation is admirable, even if the state's commitment to the cause also appears to be wavering. But creating a non-viable, non-competitive, practically non-functioning market composed of shifting and patchwork regulatory measures is not meaningfully helping those affected by the war on drugs.

As things stand now, New York's attempt to bring restorative justice via cannabis legalization feels more like it stems from state official's desire to give themselves pats on the back than it does from any genuine yearning to try to meaningfully compensate for history's wrongs. Hopefully that changes.

"Creating a non-viable, non-competitive, practically non-functioning market...is not meaningfully helping those affected by the war on drugs."

Bottom Line: By virtually every metric, New York has had the absolute worst adult-use market opening that the United States has seen thus far, and it's unlikely that a state will find enough new and creative ways to fail that it will be losing the crown anytime soon.

GRADE: F



Connecticut



Connecticut is the most recent eastern state that began adult-use sales. Similarly to New York, the state passed legislation in mid-2021 and legalized personal possession just a few months later, prior to the start of sales which eventually began on January 10, 2023. However, just a third of the year into the market, the cracks are already starting to show.

CRACKS IN A NEW MARKET

First, even four months in, medical cannabis sales continue to be higher than adult-use. And Connecticut's medical market isn't even particularly large. At the start of adult-use sales, the state was home to about 49,000 patients, or 1.7% of the state's adult population – a bit below the 2% benchmark that tends to elucidate a mature medical-only market. If it takes adult-use sales more than a couple of months to expand past such a small medical system, there's something wrong.

In the case of Connecticut, the issues start with the state's approach to licensing. Only thirteen businesses across all categories were ready for launch, all of which converted from being medical-only to dual-purpose. For the privilege of switching over to help the state fulfill its vision of a regulated, safe supply chain, interested dispensaries were slapped with a bill of one million dollars. Producers were smacked upside the head with a three-million-dollar fee. While the cost of opening an adult-use store after going through the lottery process is significantly lower (\$30,500 from lottery to launch), this decision nonetheless served to limit product availability in the early months and drove prices well into the range of irrationality.



**"...interested
dispensaries were
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one million dollars."**



Connecticut (continued)

LIMITING SALES & POTENCY

Five months in, the state is now home to 11 cultivators and 12 retailers, a step up, certainly, but still far from adequate. This equates to one cannabis store per 222,000 adult residents of the state, about ten times less than is necessary to depress legacy channel sales. When all first-round applications are granted, the state should be home to 56 total retailers – one per 52,000 adults, likely too few even with how population dense the state is.

Like Vermont, Connecticut also imposes some potency limits. Most of these are of minimal importance – Flower rarely surpasses the 30% THC limit that the state imposes. Similarly, concentrates tend to be below the 60% threshold which is the state's maximum and, fortunately, vapes are excluded from this limit. The main decision that does have an impact is the restrictions placed on edibles. Infused foods are permitted to have a maximum of 5 mg per serving with a total of 100 per package – something that could be mildly inconvenient but isn't a significant barrier.

Beverages, however, must be packaged in single serving sizes, limiting each can bottle, or tea bag to just 5 mg of THC. This will significantly stunt the growth of infused drinks in Connecticut. Any heavy consumer will need to purchase and consume multiple of these units in order to feel any sort of effect, something that could prove costly and not sensible. Additionally, all edibles must be packaged in all-white packaging, making it extremely difficult for brands to stand out on the shelf.

"All edibles must be packaged in all-white packaging, making it extremely difficult for brands to stand out on the shelf."



Connecticut (continued)

THE RESULT OF LIMITATIONS

Clearly, all of these limitations on consumer access are taking a toll. Unless early sales were explosive, like in Montana, there's reason for concern when your state's adult-use sales are only growing by 7% from the third to the fourth months. Over those same months, after their initial launches, Michigan grew by 48%, Massachusetts by 17%, and Maine by 29%. While slow growth from month three to four has occurred (Illinois even saw a small decline) it is always illustrative of issues.

"...there's reason for concern when your state's adult-use sales are only growing by 7% from the third to the fourth months"

In the case of Connecticut, not enough people have stores in their towns, prices are too high, and edible products are limited. It will take a bit until these issues are likely to be resolved. But at least it's not New York.



Bottom Line: Connecticut still has very limited retail access, high prices, and places limits that severely hinder the growth of edibles categories. It's resulted in low sales and slow growth.

GRADE: D⁺



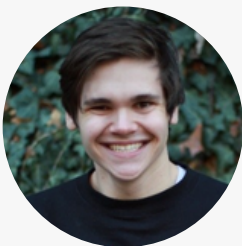
Conclusion

While all these markets offer long-term potential, with the sole exception of Vermont – the least populous of the five states – most of their openings have been disappointing. Fortunately, the story of these markets doesn't end after just five months or a year. While each of these states has issues, they're all fixable if regulators take a look at what's working, what isn't, and make adjustments.



For cannabis to have any chance at being a viable industry, products need to be affordable and convenient to purchase. Getting there can take time. Michigan, now one of the nation's strongest adult-use markets, took a while to get active, and Massachusetts saw sales increase gradually as prices took years to drop to reasonable levels. A bad opening doesn't mean that it will be bad forever, and it certainly doesn't indicate a lack of potential.

The East proves, fascinatingly, that the political leanings of a state and the supposed “cannabis-friendliness” of its legislators are not a great predictor of eventual market strength. While medical only, the red state of Oklahoma and (slightly less red) Florida have taken much more lax approaches, allowing for hundreds upon hundreds of retailers and large-scale cultivation operations. Perhaps out of some feeling of moral obligation to get cannabis “right,” many of these Eastern states have gone too far in the other direction, creating regulations that seem tailor-made to smother the market in its infancy, before it's even learned to say “mids.”



About the Author

As Insights Manager at Brightfield Group, **Matt Zehner** has been performing quantitative and qualitative analyses of North America's cannabis and CBD markets for nearly four years.



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