

Illegal Cannabis Market Persists in New York Despite Legalization

This State Legalized Cannabis, So Why Does It Still Have an Illegal Weed Problem?

Even after legalizing cannabis in 2021, New York continues to grapple with a thriving illegal market. City and state officials claim they've shut down more than 1,300 illicit cannabis outlets, but experts estimate thousands more remain open for business. The struggle to curtail illegal weed sales underscores the challenges of building a legal cannabis industry while competing with entrenched black-market operators.

Legal Shops Competing with Illicit Sellers

Verdi, a legal cannabis dispensary in New York, saw its business triple in May after state and city officials began cracking down on unlicensed cannabis retailers. However, the surge in sales didn't last long. A nearby illegal competitor, closed during the enforcement blitz, soon cut the padlock on its doors and resumed selling unregulated weed. This caused a 10–15% drop in Verdi's sales, according to its founder, Ellis Soodak.

"It's really disheartening to see people flying in the face of the law," said Soodak. "People assume these unlicensed stores are mom-and-pop shops. ... Most of these stores are owned by conglomerates."

New York, a state of 20 million people, has just 182 licensed cannabis dispensaries. In contrast, Michigan, with half the population, has over 800. The slow pace of licensing in New York has allowed illegal sellers to dominate the market, filling the demand that legal dispensaries can't meet.

The Crackdown on Illicit Cannabis Shops

The lack of licensed dispensaries has paved the way for thousands of illegal sellers to step in, with some setting up shop near schools and selling cannabis in colorful, eye-catching packaging. In response, lawmakers have given state and local authorities increased enforcement powers. Since May, the New York State Illicit Cannabis Enforcement Task Force has padlocked at least 345 locations, while New York City authorities have closed around 1,000 illegal outlets.

Yet, with an estimated 4,000 unlicensed sellers operating in New York City alone before the crackdown began, enforcement is barely scratching the surface. Many illicit operators are reopening their doors soon after being shut down, further complicating efforts to regulate the market.

Illicit Chains and Evasive Tactics

One of the major challenges in shutting down unlicensed cannabis sellers is the complexity of ownership structures. State enforcement officials, like Dan Haughney, director of enforcement for New York's Office of Cannabis Management (OCM), have identified cases where the same owner runs multiple illegal stores. This makes coordinated raids necessary, as shutting down one store without addressing others allows operators to

shift business elsewhere.

“We’ll try to hit those stores that are connected at the same time,” Haughney explained. Illegal operators have also adjusted their tactics, with some now operating only at night or moving their inventory to off-site locations to evade seizures.

Additionally, many of these illegal shops process cannabis products on-site, such as rolling joints or making edibles—practices prohibited in licensed dispensaries. Haughney expressed concern over the unsanitary conditions in which some of these products are made, as well as the packaging that appeals to children with bright colors, bubble fonts, and cartoon characters.

Haughney also highlighted the presence of brands like STIIIZY and Jeeter in New York’s illicit market. Some of these products are believed to have been diverted from California’s regulated cannabis industry. Although STIIIZY has denied involvement in illegal sales, Haughney’s investigations suggest otherwise.

Legal Dispensaries Struggling to Compete

Despite the crackdown, legal dispensaries like Mighty Lucky in Lower Manhattan are still competing with the illegal market. Customers frequently request popular brands like STIIIZY, often unaware that many of these products are sold illegally. Mighty Lucky founder Beau Allulli noted that many customers also expect to pay with credit cards, a practice common among unlicensed sellers who classify cannabis purchases as other items. Legal dispensaries, constrained by federal banking restrictions, cannot offer the same convenience.

The difference in payment methods is one of the few complaints Allulli hears from his customers. Out of hundreds of five-star Google reviews for Mighty Lucky, the only negative feedback has been about high fees for payment processing, which the dispensary has little control over due to cannabis’s federal status.

“They think that we’re keeping the fee and upcharging [them],” Allulli said. “We try to explain it’s federally illegal.”

Enforcement Efforts Yield Limited Success

While the crackdown on illegal cannabis sellers has led to the closure of over 1,300 outlets, enforcement challenges remain. New York City Mayor Eric Adams recently stood before four tons of cannabis seized from unlicensed operators, set to be incinerated. Despite these efforts, dozens of the shuttered shops have already reopened.

Legal challenges are also complicating enforcement. In one case, a convenience store closed during the crackdown was allowed to reopen after a judge ruled that officers had not followed proper procedures. The store’s attorney, Lance Lazzaro, has successfully won reopening decisions for multiple clients and is now challenging the state’s enforcement practices, arguing they violate businesses’ due process rights.

Lazzaro’s latest lawsuit, filed against the OCM, challenges the sealing of a Manhattan convenience store, Shopsmart Convenience, arguing that the state’s new enforcement powers are unconstitutional.

Slow Licensing Process Hampers Legal Market Growth

While authorities have shut down hundreds of unlicensed retailers, the legal cannabis market in New York is growing at a slow pace. Joe Rossi, head of Park Strategies’ cannabis practice, criticized the state’s sluggish pace in issuing licenses, noting that the limited number of licensed dispensaries is driving demand for illegal

sellers.

“You can’t just have [182 licensed] stores and thousands of illicit shops,” Rossi said, emphasizing the need to accelerate the licensing process to reduce the appeal of the black market.

The Path Forward for New York’s Cannabis Industry

New York’s struggle with illegal cannabis sales highlights the difficulties of regulating a newly legal market while competing with an established black market. Despite the crackdown, illegal sellers continue to thrive, and the slow pace of licensing for legal dispensaries has hampered the growth of the legal cannabis industry.

As enforcement efforts continue and legal challenges mount, New York’s cannabis regulators must find ways to expand the legal market and offer consumers better access to regulated products. Until then, the state’s illegal weed problem is likely to persist, leaving licensed businesses at a disadvantage and consumers at risk from unregulated products.

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