

# North County Craft Brew Report

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2nd Edition



**SAN DIEGO NORTH**  
Economic Development Council

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## Executive Summary

With the rise of craft brewing across the United States, North County has experienced a steadily growing population of breweries, brewpubs and affiliated businesses. Understanding the dynamics and challenges of the craft brew industry can help convey the unique opportunities and important needs they bring to local elected officials and the business community. To take a closer look at the North County craft brew industry, we, in partnership with the San Diego North County Economic Development Council, used survey data, California ABC licenses and business records. The following are our major findings:

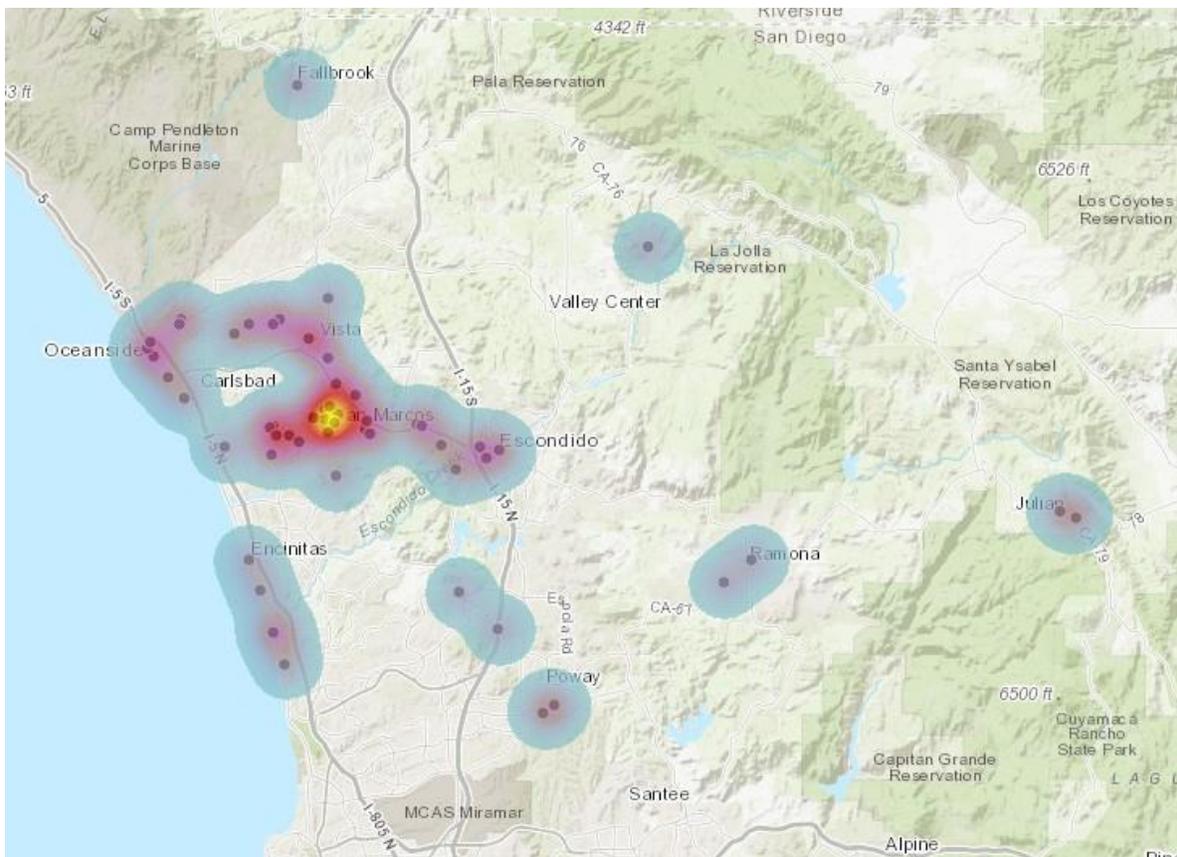
- Overall, we found that the North County craft brew industry generated a \$185.1 million regional economic impact, a 49% increase in three years (\$124.5 million).
- North County craft brew businesses generated \$220.3 million in direct sales last year. This is a 53% increase compared to 2013, when businesses earned \$144.2 million.
- There are an estimated 1,236 total craft brew jobs in the North County area, the majority (54%) of which are hospitality, tasting room and beer server jobs. Since 2013, the number of hops farms in North County has more than tripled.
- Countywide, average wages at breweries and brewpubs are relatively high (\$39,260 in Q1 2017), but are becoming less competitive over time. Other major craft beer growing regions in the U.S. are steadily adding new jobs and raising average wages, and may surpass San Diego (and North County) wages in future years.
- We identified 53 uniquely owned breweries and brewpubs, which operate 62 total beer-serving establishments across the North County area. A GIS density analysis reveals the epicenter of North County's craft beer industry is the City of Vista, and stretches mainly across the 78 state highway and the coastal communities west of Interstate 5.
- Survey responses indicated that North County craft breweries are mostly small, profitable, and locally-focused. With virtually all of North County craft beer being sold and consumed in California, there are clear opportunities for greater tourism and hospitality sector partnerships.
- Among top policy priorities for brewery and brewpub owners, "distribution" was the clear top choice among survey respondents, followed by a tie between labor costs and access to capital. Talent/labor supply and water rates/supply ranked lowest on the index scale.
- North County craft beer culture may be a factor in how talented "innovation economy" workers determine where to work and live. Executive interviews found there was some level of independent awareness from some high-tech and life science workers of San Diego's (and North County's) craft beer culture. More research is required to explore this issue, and draw broader and more finite conclusions.

## Industry Profile

San Diego County's brewing history extends over a hundred years, with the founding of Mission Brewing Company (1913) in the Midway area, and other brewing pioneers including Aztec Brewing (1933) in Barrio Logan. After the repeal of Prohibition, and the legalization of homebrewing in the 1970's, craft brewing ascended across the United States in the late 20<sup>th</sup> century. In North County, early market entrants include Bolt Brewery in Fallbrook (1987), Pizza Port in Solana Beach (1992), San Marcos Brewery, and Stone Brewing Company in San Marcos (1996).

Using a proprietary business database, and state license records, we developed a comprehensive list of current North County craft breweries, brewpubs and taprooms.<sup>1</sup> Overall, we identified 53 uniquely owned breweries and brewpubs, which operate 62 total beer-serving establishments across the North County area. To analyze the spatial relationship of establishments, we mapped the addresses of North County breweries, brewpubs and taprooms using GIS software. A GIS density analysis reveals the epicenter of North County's craft beer industry is the City of Vista, and stretches mainly across the 78 state highway and the coastal communities west of Interstate 5.

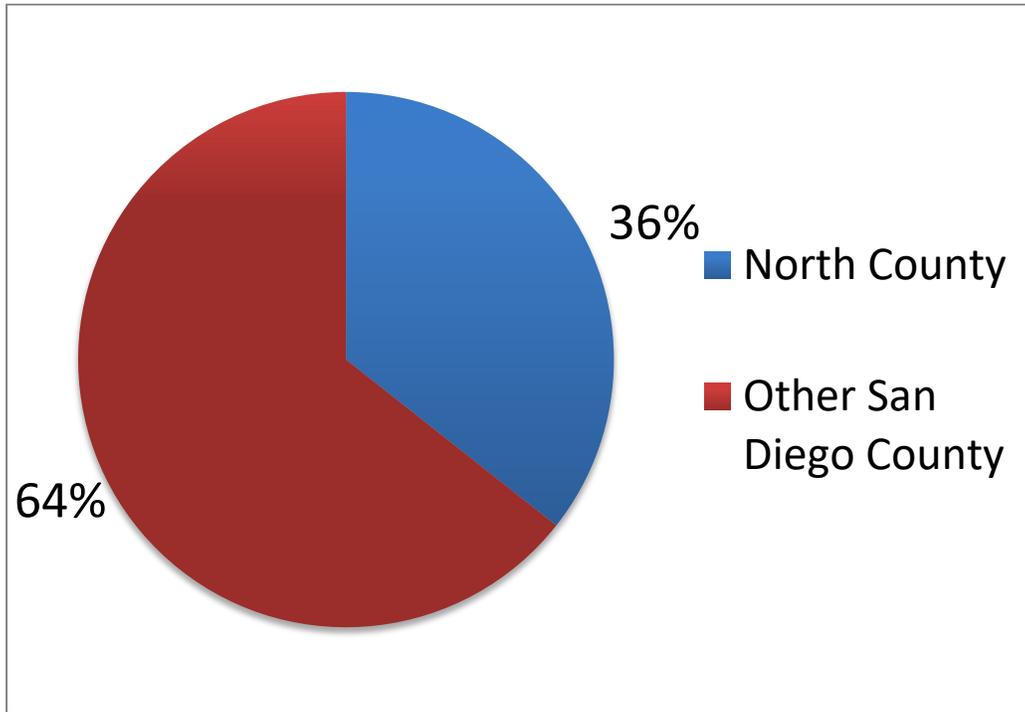
Figure 1: Density Analysis of Craft Breweries and Brewpubs in San Diego North County



<sup>1</sup> We define "North County" as the geographic area in San Diego County north of the 56 state freeway, and including the city of Poway. "Taprooms" are defined as retail stores owned and operated by breweries and brewpubs, but lacking on-premise brewing operations.

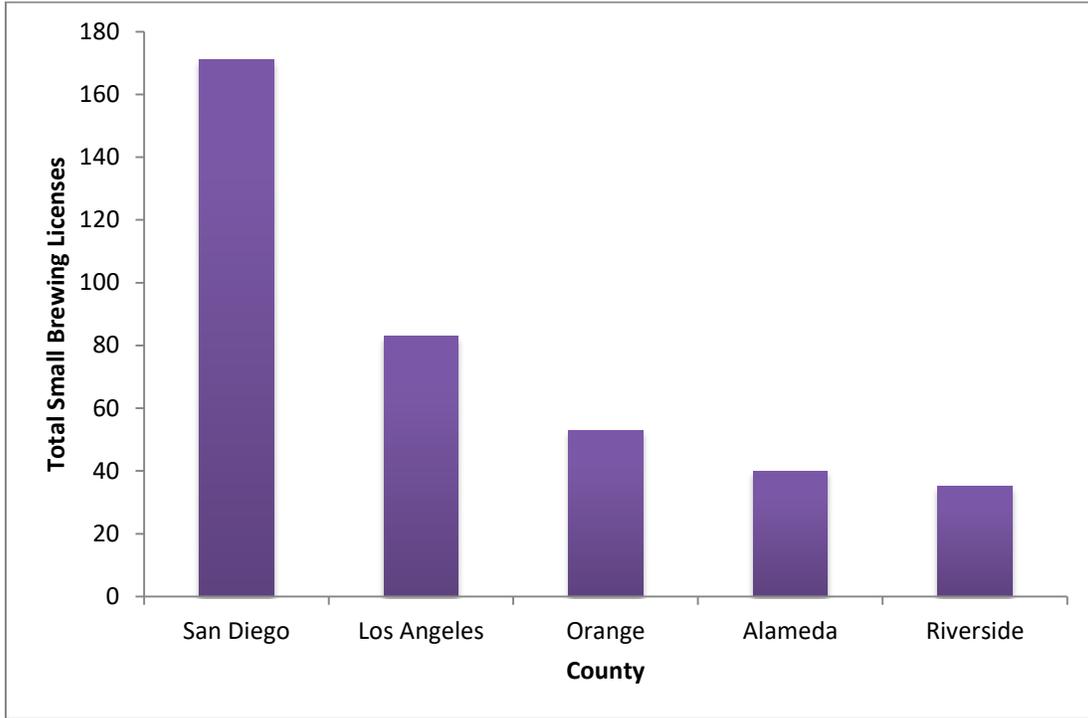
The California Department of Alcoholic Beverage Control (ABC) issues a license, Type 23, for “small beer manufacturers” that produce up to 60,000 barrels of beer annually. ABC license records identify 174 total Type 23 licenses in San Diego, of which more than a third (36%) are located in North County.

Chart 1: Geographic Location of Type 23 Licenses in San Diego County, October 2017



San Diego County is the largest geographic concentration of craft brewing in California - slightly more than 1 out of 5 (20.7%) active Type 23 licenses are found here (see Chart 2). Other top counties are found mainly in Southern California - Los Angeles, Riverside and Orange.

Chart 2: Type 23 ABC Small Brewing Licenses by County, Fiscal Year 2017



To further explore the economic dynamics of the North County craft brew industry, we, in partnership with the San Diego North Economic Development Council, distributed a 15-question survey electronically to North County breweries and brewpubs from late September to early October 2017. We contacted establishments using our proprietary industry database, supplemented by verified email addresses found through Internet research. Overall, we received 18 complete survey responses, generating a 34% response rate. This response rate is within the range of prior rates generated from our survey research into the Southern California craft beer industry.

Survey responses indicated that North County craft breweries are mostly small, profitable, and locally-focused. The majority of respondents indicated they have a 10 BBL brewing capacity, with a handful of breweries owning larger systems. Smaller, newer breweries ranged in responses from \$200,000 to \$300,000, while breweries with larger square footage, closer to the coast, and with brewers that have earned medals at the Great American Beer Festival earned more than one million annually.

Most survey respondents (68%) indicated they brew 1,000 barrels of beer annually or less (Chart 3), with about a quarter (26%) of respondents brewing at a mid-size standard of 1,001-7,500 barrels a year. Regardless of production levels, virtually all (99%) of that beer is sold in California (see Table 1). This is a strong match for the region's broader tourism market, which is mostly in-state metropolitan areas within a day's drive of San Diego, as well as metro areas in neighboring states (greater Southern California, San Francisco Bay Area, Phoenix, and Las Vegas).

Chart 3: Barrels of Beer Produced in 2016

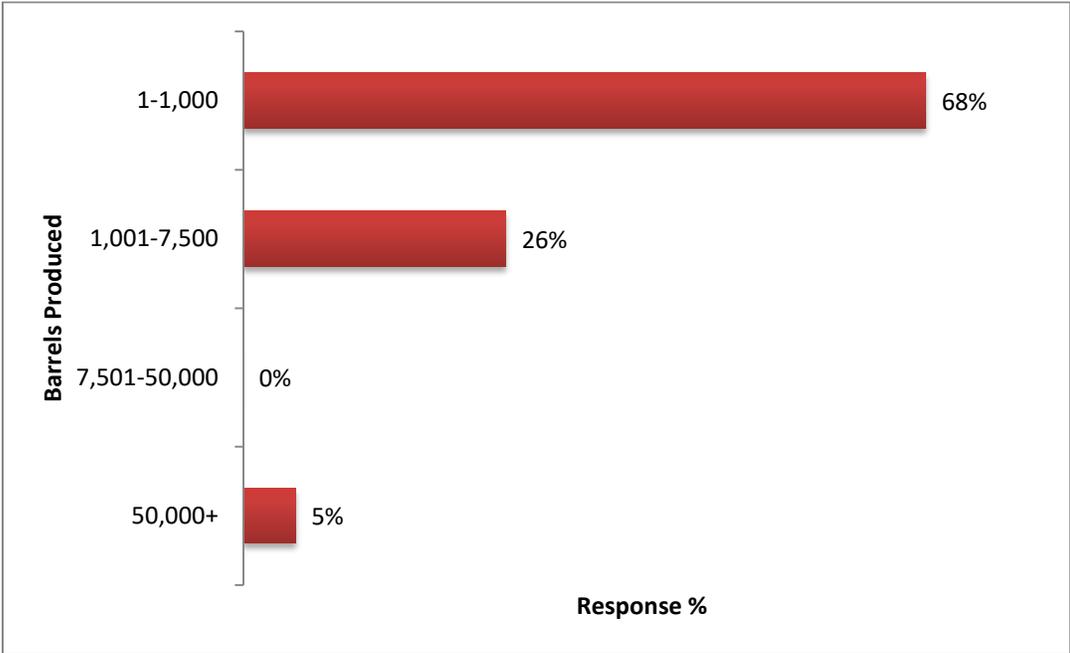


Table 1: Sales Locations of North County Craft Beer

Within California?	Outside of California but within the United States?	Outside of the U.S.?
99%	1%	0%

North County breweries and brewpubs indicated strong support for community and non-profit organizations (Table 2). Virtually all respondents participate in local festivals, and provide in-kind donations to charitable and non-profit organizations. All survey responses were in-fact slightly higher than the responses received in a countywide industry survey we conducted in late 2015.<sup>2</sup>

<sup>2</sup> "San Diego Craft Brewing Industry: 2016 Update." Table 4. <[http://nusinstitute.org/assets/resources/pageResources/NUSIPR\\_2016\\_SD\\_Craft\\_Brewing\\_Update.pdf](http://nusinstitute.org/assets/resources/pageResources/NUSIPR_2016_SD_Craft_Brewing_Update.pdf)>.

Table 2: Charitable Activities of North County Breweries & Brewpubs

Charitable Activities	% Response
In-kind donations (beer, facility space, etc.) to charitable/non-profit organizations	100%
Participate in local festivals	100%
Donate money to charitable/non-profit organizations	79%
Participate in fundraising events	79%
Volunteer work	37%
Other	16%

### Workforce, Wages & Training

The craft brew industry is comprised of more than breweries and brewpubs – there are a number of additional businesses that play a primary role in the manufacturing, sale and distribution of craft beer. To develop a comprehensive industry workforce profile, we first asked survey respondents to provide an employee headcount for 2016, based upon the employee’s primary occupation. We next included five major additional occupational categories that are principal contributors to the brewing process, based upon prior industry research.

Overall, we estimate 1,236 total craft brew jobs in the North County area, the majority (54%) of which are hospitality, tasting room and beer server jobs. Since our last North County craft brew report (2013), the number of hops farms in North County has more than tripled (4 to 13), and we have also added new businesses for brewing lab analysis and yeast manufacturing.

Table 3: San Diego North County Craft Brew Industry Workforce, by Occupation

Occupations	2016
Brewing jobs	111
Hospitality/tasting room/beer server jobs	662
Executive/administrative jobs	87
Sales/marketing/finance/other office jobs	266
Facilities/maintenance jobs	37
Homebrewing Supply Store Worker	17
Steel Brewing System Designer	20
Brewing Lab Technician	3
Yeast Manufacturer	1
Hops Farmers	32
<b>TOTAL JOBS</b>	<b>1,236</b>

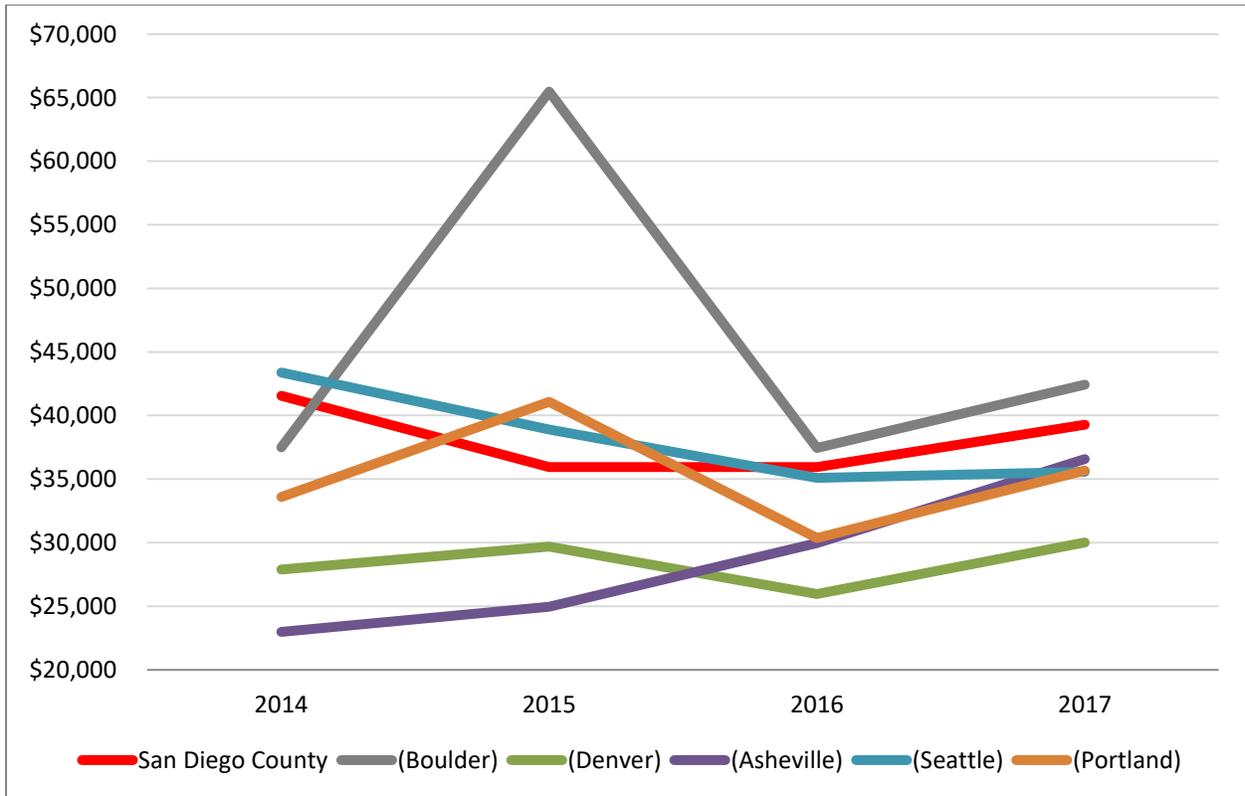
On average, North County breweries and brewpubs depend more on part-time than full-time workers (57% vs 43% respectively). This stands in contrast to 2015 countywide survey results, where most respondents indicated they employ mostly full-time workers (52%). This requires more investigation – it may reflect important differences in sales, labor costs, or growth trajectory.

Table 4: Status of Workforce

Full-time employees	Part-time employees
43%	57%

Countywide, average wages at breweries and brewpubs are relatively high (\$39,260 in Q1 2017), but are becoming less competitive over time (see Chart 4). Other major craft beer growing regions in the U.S. are steadily adding new jobs and raising average wages, after a likely initial influx of entry-level, lower wage jobs created by new establishments.

Chart 4: Industry Wages, by County, Q1 2014-2017



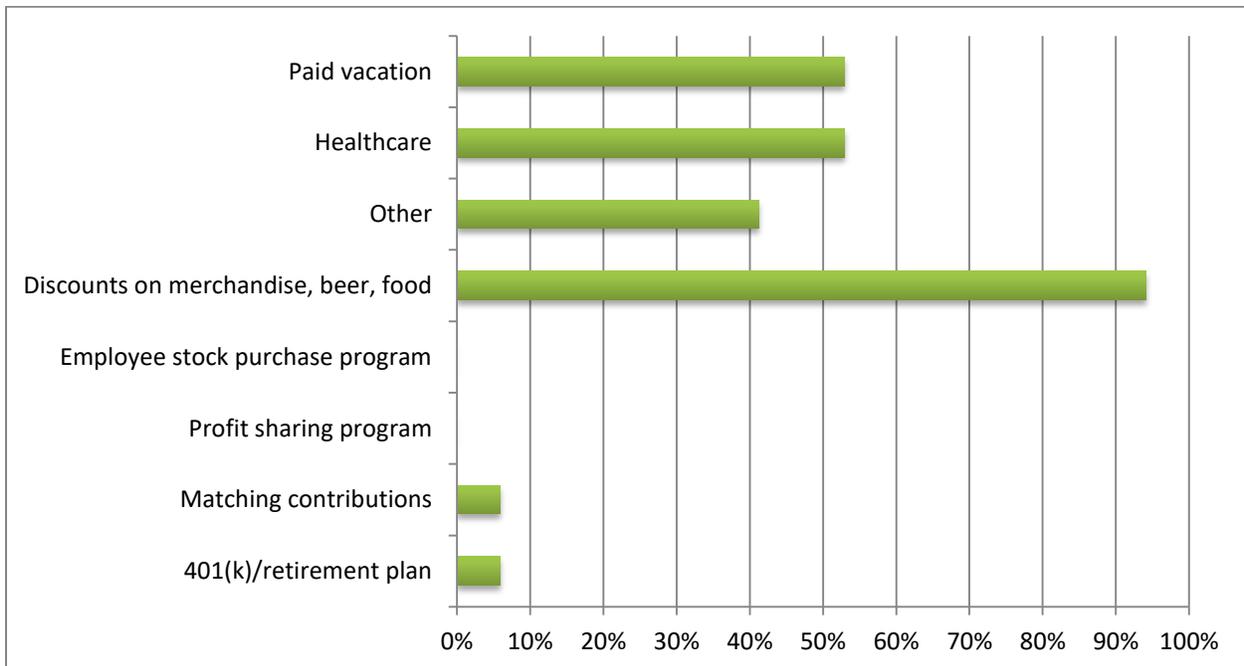
There is a high level of basic industry education in North County – virtually all (94%) respondents indicated they or their employees have enrolled or completed at least an industry certificate program. Additionally, more than one out of three (38%) respondents have enrolled or completed undergraduate and/or graduate-level industry education.

Table 5: Industry Education Programs Enrolled or Completed by Respondents and/or Their Employees

Industry Education Level Attained	Percentage Yes
<b>Certificate in brewing, business of craft beer, food science, Cicerone training/beverage service</b>	94%
<b>Bachelors degree in brewing, business of craft beer, food science</b>	24%
<b>Graduate degree in brewing, business of craft beer, food science</b>	29%
<b>Other</b>	12%

Taking a closer look at worker benefits, most breweries and brewpubs provide healthcare and paid vacation (53%) for their employees, along with beer and merchandise discounts (94%). Few provide retirement benefits (6%).

Chart 5: Employee Benefits Provided



## Sales & Economic Impact

Craft brew industry sales generate measurable economic benefits for a region. A “multiplier effect” is created when new dollars are recirculated in an economy, indirectly supporting more jobs and additional business activities. In the economic world, “Indirect effects” refer to those impacts that result as businesses procure goods and services from other businesses (and, in turn, these businesses buy goods and services from others). “Induced effects” refer to the impacts associated when workers spend their wages on goods and services (and, in turn, the associated impacts as these expenditures continue to circulate through a local economy).

To determine the total “economic impact” of the North County craft brew industry, we used an updated methodology for industry data collection and analysis (see Appendix A). We analyzed our collected survey data using IMPLAN, a leading regional input/output model. Input/output models are an econometric technique used to explore economic relationships within a designated geography; in this case, the North County area. Overall, we found that the North County craft brew industry generated a \$185.1 million regional economic impact in 2016. This is a 49% increase from 2013, when the industry generated \$124.5 million.

Table 6: Economic Dynamics of North County Craft Brew Industry, 2016 vs 2013

	2013 (000s)	2016 (000s)	Change '16/'13
<b>Direct Effect</b>	\$82,585.5	\$122,302.0	48%
<b>Indirect Effect</b>	17,961.0	27,203.1	51%
<b>Induced Effect</b>	24,012.9	35,651.3	48%
<b>TOTAL ECONOMIC IMPACT</b>	\$124,559.4	\$185,156.4	49%

We also used IMPLAN to estimate total industry sales. For 2016, we estimate that the North County craft brew industry generated more than \$220.3 million in annual sales, a 53% increase from 2013 figures (\$144.2 million).

Table 7: Estimated Industry Sales of North County Craft Brew Businesses, 2016 vs 2013

2013 Sales (000s)	2016 Sales (000s)	Change '16/'13
\$ 144,271.14	\$ 220,338.14	53%

Our 2016 job figure (1,263) is 45% greater than our 2013 estimate (850). Including all those indirect and induced jobs created as a result of North County craft brew establishments, the total jobs created and supported is 1,906.

Table 8: Estimated Industry Jobs, 2016 vs 2013

<b>Employment</b>	<b>2013</b>	<b>2016</b>	<b>Change '16/'13</b>
<b>Direct Jobs</b>	850	1,236	45%
<b>Indirect Jobs</b>	171	249	46%
<b>Induced Jobs</b>	293	420	43%
<b>Total Jobs Created &amp; Supported</b>	<b>1,314</b>	<b>1,906</b>	<b>45%</b>

## Policy Priorities

Understanding the direction of the industry requires identifying the challenges and concerns of industry participants, and measuring those viewpoints in a quantitative way. We asked respondents “looking towards future growth for your business, please rank only the top five issues that are impediments to growth.” We offered respondents twelve major policy categories to select from, based on prior surveys in other markets and interviews with industry participants. We tabulated the responses, and created a hierarchical index based on the number of responses and values awarded by respondents (See Table 9). The higher the score, the more concerned the industry is with the issue.

Overall, “distribution” was the clear top choice among survey respondents, followed by a tie between labor costs and access to capital. Talent/labor supply and water rates/supply ranked lowest on the index scale. Compared to the responses of the 2015 countywide survey we conducted, there are some important differences. The top responses in the older survey were access to capital and land/scape/available real estate, however both categories rank lower among North County breweries and brewpubs. The lowest ranked responses in the countywide survey were state/federal regulation and taxes, whereas in the North County survey these categories sit in the middle of the index.

Table 9: Impediments to Industry Growth Index (Top Five)

Issue	Index Score	Sample
Distribution	2.76	13
Labor costs	2.45	11
Access to capital	2.45	11
Marketing	2.11	9
Availability/price of hops, grain, yeast	2.00	4
Non-San Diego market competition	2.00	7
State/federal regulation	1.83	6
Taxes	1.80	5
Permits/local regulation	1.50	8
Land/space/available real estate	1.33	6
Talent/labor supply	0.67	3
Water rates/supply	0.00	1

## Tourism

There is a clear nexus between craft breweries and the hospitality industry, particularly in San Diego. Visitors are seeking out craft breweries on their trips to the region. The San Diego Tourism Authority's 2013 Visitor Survey Profile found that "local craft beer tasting/tours" ranked as a Top 15 activity (#11) among all visitors to the region, following other leisure activities such as sightseeing, theme parks, and relaxing at the beach.<sup>3</sup> The 2015 San Diego Brewers Guild Festival drew more than 4,000 attendees, including craft beer enthusiasts from 28 states and eight countries.<sup>4</sup>

In North County, visitors are also arriving to sample local craft beer. Stone Brewing World Bistro & Gardens in Escondido is the third largest visitor destination in North County, following the San Diego Zoo Safari Park and Legoland.<sup>5</sup> The signature North County craft beer event is the annual Rhythm and Brews music and craft beer festival, presented by the San Diego Brewers Guild. In May 2017, Rhythm and Brews drew an estimated 2,500 people to downtown Vista Village; attendees included visitors from outside the state.<sup>6</sup> North County breweries and brewpubs serve mostly locals in their taprooms, but visitors do have a meaningful presence. When asked what percentage of 2016 sales they attribute to tourism and direct sales to tourists, most responses ranged from 10-15% (however total responses ranged from 0%-100%).

When asked what, in your opinion, draws visitors from outside the region to North County breweries and brewpubs, most survey respondents indicated the high-quality and wide variety of breweries ("quality & quantity"). Some also mentioned that industry advertising and visibility, drawn by larger breweries (Stone) and marketing efforts from local brewers guilds (Vista, San Diego) and tourism boards make a positive impact. A scan of webpages by North County city chambers of commerce and tourism boards identifies that most North County cities (5 out of 9) feature or prominently feature local breweries and brewpubs to prospective visitors.

On the issue of what draws visitors to North County generally, common survey responses included the weather, beaches, and active lifestyle options. Others indicated Legoland and other attractions, including dining and brewery options. Future research projects could identify how many visitors come to North County breweries and brewpubs primarily for craft beer, and how many visit local taprooms incidentally to other reasons for their visits (weddings, conferences, etc.).

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<sup>3</sup> CIC Research Inc. 2013 San Diego County Overnight Visitor Profile. Page 12. <<http://www.sdtmd.org/wp-content/uploads/2015/09/2-Exhibit-A-Scope-of-Work-Destination-Marketing-Plan.pdf>>.

<sup>4</sup> "Case Study: San Diego Beer Week." San Diego Tourism Marketing District. Accessed October 1, 2017. <<https://www.sdtmd.org/case-study-san-diego-beer-week/>>.

<sup>5</sup> Craft Beer Debates Forum, San Diego, September 12, 2012.

<sup>6</sup> "Rhythm and Brews." 92081 Magazine. Accessed October 1, 2017. <<http://92081magazine.com/2017/06/12/rhythm-brews/>>.

## North County craft brew & the innovation economy

Across the nation, economic development agencies are developing strategies to attract and retain high-skilled workers and employers, particularly those in the high-tech and life science fields (IT, software, biotech, medical devices) who contribute to a region's economy. There are known "hard" factors that drive their placement and site-selection decisions (workforce education levels, market access, the presence of competing businesses, etc.) but less is known about the qualitative, "soft" factors that also play a major role, such as culture and "lifestyle" amenities. Research shows there is a high demand among globally mobile talent for desirable, dynamic communities to live, work and play. To the degree a region can facilitate improvements to its quality of life, or raise awareness to unique local attributes, interest may be raised among prime investors and workers.

There is some anecdotal evidence to suggest that craft breweries are a lifestyle amenity that aids in helping recruit and retain companies and talent in other markets. Some employers embrace craft beer as a way to further achieve corporate objectives; in Boston, start-ups stock local craft beer and regularly host social events around breweries to foster brain storming and a social working environment. In San Diego, Qualcomm Inc. employees have a continuous presence at "Building K," also known as Karl Strauss Brewpub in Sorrento Valley, which is walking distance from most Qualcomm buildings. Breweries and brewpubs are also being used as anchor tenants for major development projects across the country.<sup>7</sup>

To what degree are decisions by North County "innovation economy" firms and workers based on the presence of craft breweries and brewpubs, and what is the relationship between the two generally? Knowing the answers could help industry leaders refine their marketing and messaging efforts more effectively, and encourage greater support from local elected officials. To gauge the importance of craft breweries as a determining factor, we conducted a series of executive interviews with individuals with a professional background in or knowledge of North County innovation economy firms and workers. Our interviewees included site selection specialists, professional recruiters, industry association representatives, and commercial property developers/managers. The following are three major findings from these interview sessions:

### *#1) The presence of North County craft breweries is complementary to innovation economy firms and workers*

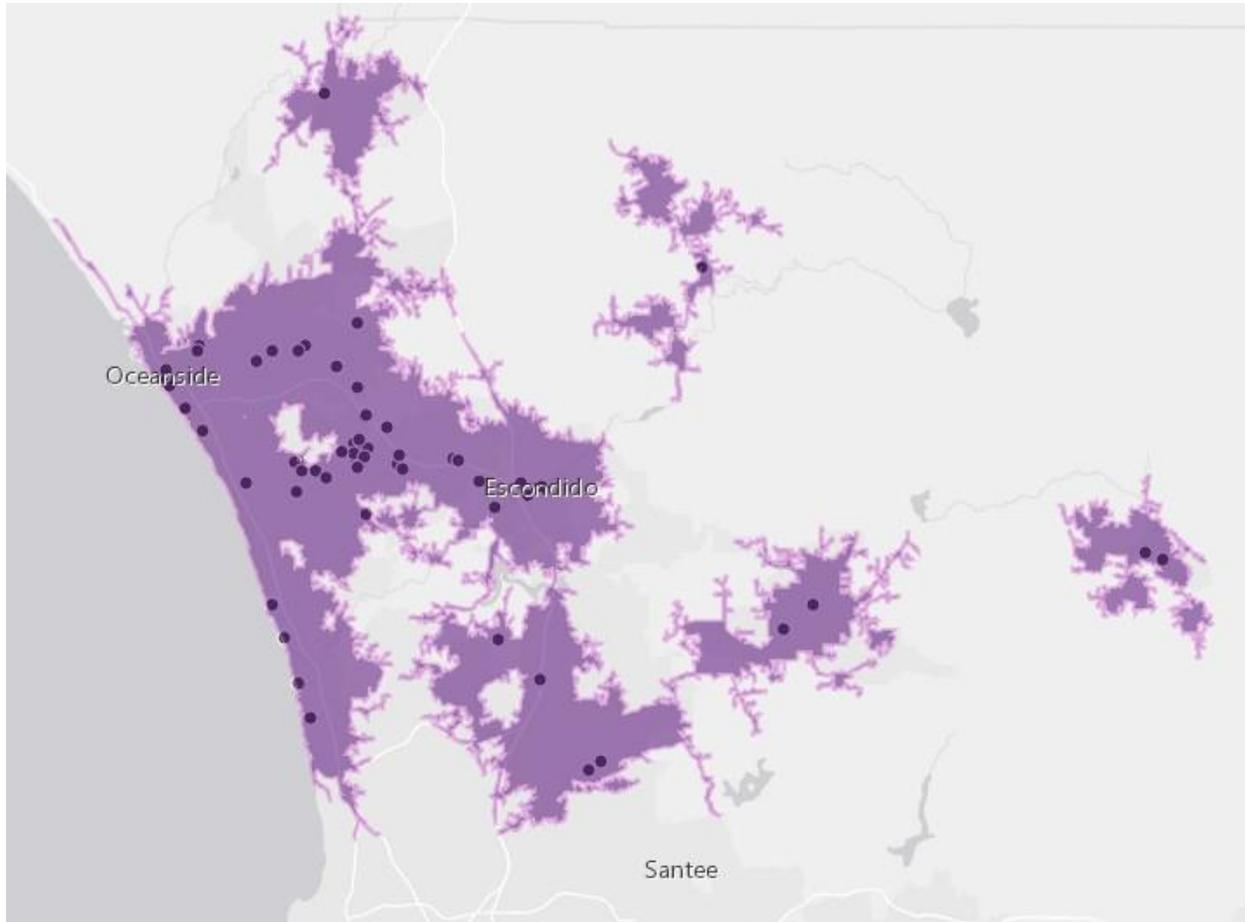
Most interviewees identified local craft beer as a positive, soft amenity for the innovation sector. Craft breweries and brewpubs, particularly those in industrial business parks, are popular after-hour gathering spaces for workers and residents. Corporate events are at times held at breweries or serve local craft beer. The demographic profile of high-tech and life science workers has strong overlap with craft beer consumers overall – generally college educated, higher income, male, Caucasian, Millennials and Gen-Xers. In some respects, local breweries are capturing business that would otherwise be served by taverns or bars in other markets where craft breweries do not have a strong physical presence. Craft breweries are activating commercial spaces, generating foot traffic and business on evenings and weekends when business parks aren't occupied or busy. Indeed, a GIS drive-time analysis finds that

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<sup>7</sup> Banister, Jon. "Success on Tap: 6 Breweries Anchoring Major Developments Around the U.S.." Bisnow. October 20, 2017. Accessed October 21, 2017. <<https://www.bisnow.com/washington-dc/news/mixed-use/6-breweries-anchoring-major-developments-around-the-us-80602>>.

most North County residents and workers are within a 10 minute drive of a brewery or brewpub (Figure 2).

Figure 2: Drive Distance Analysis of North County Craft Breweries & Brewpubs (10 Minutes)



## *#2) Craft breweries are real estate “nice to haves”*

While in other markets, craft breweries are sought out to be anchor tenants or part of a mixed-use development to attract younger tenants, none of our interviewees were familiar with a similar scenario in North County. The North County commercial real estate market is tight, rents are generally high, and landlords are primarily looking for tenants with a history of financial stability. Craft breweries are usually new and first-time businesses, with no history of credit or profit, and are sometimes viewed as risky, or riskier than other types of prospective tenants. That said, perceptions overall are generally favorable towards local breweries and brewpubs. However, where alcohol is integrated into new North County working spaces, local craft beer can be found. For example, the Alexandria in Torrey Pines, a new business park specializing in serving life science and technology firms, features more than half a dozen San Diego craft beers at their main bar. Commongrounds, a co-working space that opened its doors in Carlsbad on November 2016, also has local craft beer on tap for tenants.

### *#3) Talented professionals are somewhat aware of North County craft beer culture*

None of our interviews found evidence that the presence of craft breweries and brewpubs are a primary influencer in site selection or worker residency, however it may still be a secondary or tertiary influencer, particularly for where young, talented professionals decide to reside and work. Indeed, our feedback suggests that there is some worker awareness of a “craft beer culture,” in North County and elsewhere in San Diego County, that does not derive from their interaction with prospective employers or recruiters. We also did not find any evidence where craft beer or breweries are integrated as a selling point to prospective employees, however, talented professionals are learning about the local craft beer culture independently, perhaps through brand awareness, Internet research, or word of mouth. More research is required to make more finite determinations. A comprehensive survey with a large sample of HR managers and recruiters at high-tech and innovation economy firms could help social scientists draw stronger conclusions on the issue.

## **Appendix A: Changes in Methodology**

### *New data source on sales*

Prior to 2015, we had relied upon a combination of public business records and business database ReferenceUSA to estimate total industry annual sales. However, in evaluating a large sample of actual local sales data in late 2015, we have found IMPLAN, the best-in-class econometric modeling program, to be a more accurate source of sales figures than ReferenceUSA. We have thus chosen to use IMPLAN sales estimates, starting with revising the previously-published 2013 sales figures, as well as our 2016 estimates.

### *New data scope*

In 2013, when we last conducted this industry analysis in North County, San Diego breweries and brewpubs were almost entirely located in San Diego County. Our old economic impact figures reflected all sales generated by breweries and brewpubs headquartered in North County, with the knowledge there was a strong nexus to the jobs and business activities in North County. Now, with rapid industry expansion nationwide, and many San Diego breweries expanding their operations out-of-state, we are refining our data scope to only those sales and workers located in North County. This will provide a more accurate, meaningful assessment to the economic value of local businesses and local jobs.

### *Refining our Survey Instrument*

Our survey instrument has also been refined. Previously, we sent surveys electronically to brewery and brewpub owners, asking for their current employee head count and the number of employees in brewing centric and non-brewing centric work. Beginning in 2015, we expanded our survey questionnaires to include more detailed questions about sales, the industry workforce, and relevant policy topics.

### **About the Author**

Vince Vasquez is an independent economic data analyst based in Carlsbad, California. Professionally, he has worked as a public policy researcher for more than twelve years. He has authored more than forty policy papers on a range of economic and workforce issues, including craft brewing, wineries, small business districts, and the renewable energy sector. Mr. Vasquez has conducted hundreds of media interviews, including ABC News, and print, radio and television outlets. He has a Bachelor of Arts in Political Science from the University of California – San Diego, and a Masters in Public Administration. He has used GIS software professionally for more than seven years, and has completed training to use Tableau software.



## **SAN DIEGO NORTH**

Economic Development Council

San Diego North Economic Development Council is a nonprofit coalition of the public and private sectors working together with community partners to sustain and strategically grow the economic base of North San Diego County.