

US Research

SPOTLIGHT REPORT

October 2015



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Craft Beer Pours Into Commercial Real Estate



Executive Summary

The growing popularity of craft beer in the United States presents opportunities for owners of both warehouses and retail spaces to purpose their buildings to enable brewers to produce and/or sell their output. In the leading markets we surveyed, Colliers International identified more than 400 breweries being planned, potentially representing 3 million SF of new craft beer inventory. The vast majority will be located in industrial space whether in a multi-tenant industrial complex or a larger single-tenant industrial building while the remaining breweries will operate in a retail restaurant location, more commonly known as a brewpub. Each brewery will typically include dedicated space that acts as a retail component that is used to sell directly to consumers in the form of carry out or an on-site taproom within the same operational space their product is manufactured.

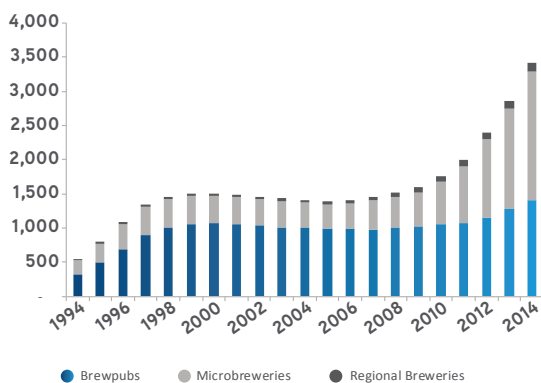
U.S. Craft Beer Market Share Continues to Grow

Fueled by consumer demand, the number of U.S. craft breweries has skyrocketed, with new craft breweries opening across the country. These new breweries are producing a more diverse, higher-quality beer than the traditional mass-produced lagers. Overall, beer market sales last year were \$101.5 billion nationally. Craft brewers now account for almost one-fifth of the total beer market sales, produced in some 3,400 small breweries, according to the [Brewers Association](#), (a trade group representing craft brewers). The large national brewers account for over 80% of that total despite operating out of fewer than 50 plants nationwide.

The craft beer industry is segmented into three categories: microbreweries, brewpubs and regional craft breweries. From 2013 to 2014, the number of craft breweries in the United States increased by 19.4% compared to a decline of 14.8% in non-craft breweries. The number of breweries is projected to increase by an annualized rate of 7.1% between 2015 and 2020 according to the *IBIS World: 2015 Craft Beer Production Industry Report*, which would bring the total number of U.S. breweries to more than 5,300.

The proliferation of craft brewing, at the expense of traditional large breweries, suggests a much more local, “grass roots” movement, which, in contrast to a highly-consolidated non-craft beer industry, is now much more geographically diverse and reflects an evolving

Trend in Craft Breweries by Category



Source: Brewers Association

Craft Brewers Defined

Small - Annual production of 6 million barrels of beer or fewer (approximately 3% of U.S. annual sales). Beer production is attributed to the rules of alternating proprietorships.

Independent - Less than 25% of the craft brewery is owned or controlled (or equivalent economic interest) by an alcoholic beverage industry member that is not itself a craft brewer.

Traditional - A brewer with a majority of its total beverage alcohol volume in beers whose flavor derives from traditional or innovative brewing ingredients and their fermentation. Flavored malt beverages (FMBs) are not considered beers.

Source: Brewers Association

Craft Beer Industry Market Segments

Microbrewery - A brewery that produces fewer than 15,000 barrels (17,600 hectoliters) of beer per year with 75% or more of its beer sold off-site. Microbreweries sell to the public by one or more of the following methods: the traditional three-tier system (brewer to wholesaler to retailer to consumer); the two-tier system (brewer acting as wholesaler to retailer to consumer); and, directly to the consumer through carry-outs and/or on-site tap-room or restaurant sales.

Brewpub - A restaurant-brewery that sells 25% or more of its beer on site. The beer is brewed primarily for sale in the restaurant and bar. The beer is often dispensed directly from the brewery’s storage tanks. Where allowed by law, brewpubs often sell beer “to go” and/or distribute to off-site accounts. Note: The Brewers Association re-categorizes a company as a microbrewery if its off-site (distributed) beer sales exceed 75%.

Contract Brewing Company - A business that hires another brewery to produce its beer. It can also be a brewery that hires another brewery to produce additional beer. The contract brewing company handles marketing, sales and distribution of its beer, while generally leaving the brewing and packaging to its producer-brewery (which, confusingly, is also sometimes referred to as a contract brewery).

Regional Craft Brewery - An independent regional brewery with a majority of volume in “traditional” or “innovative” beers.

Source: Brewers Association

consumer palate and provides more opportunities for property owners to be part of the movement.

This evolving economic model is leading to broader growth and benefiting a greater number of metro areas rather than just the small number of markets where the large traditional major breweries are based. The growth in craft beer sales, up 22% from 2013, has garnered the attention of large non-craft breweries whose sales continue to decline, dropping 2.4% year-over-year in 2014. As a result, some large non-craft breweries have begun to position themselves in the craft beer market through the acquisition of successful craft breweries. And while craft beer is still far from dominating non-craft breweries, the growth in the craft beer market share indicates changing consumer tastes are altering the beer industry landscape.

Total Number of U.S. Breweries

| | # OF BREWERIES 2013 | # OF BREWERIES 2014 | '13-'14 GROWTH (%) | '13-'14 GROWTH |
|---------------------|---------------------|---------------------|--------------------|----------------|
| Craft Breweries | 2,863 | 3,418 | 19.4% | 556 |
| Non-Craft Breweries | 54 | 46 | -14.8% | -8 |
| Total Breweries | 2,917 | 3,464 | 18.8% | 548 |

Sources: Brewers Association, IBIS World

Total U.S. Beer Sales

| | BEER SALES 2013 (BILLIONS) | BEER SALES 2014 (BILLIONS) | '13-'14 GROWTH (%) |
|---------------------|----------------------------|----------------------------|--------------------|
| Craft Breweries | \$16.1 | \$19.6 | 21.7% |
| Non-Craft Breweries | \$83.9 | \$81.9 | -2.4% |
| Total Sales | \$100.0 | \$101.5 | 1.5% |

Source: Brewers Association

The Economic Impact of Craft Beer

A 2012 study by the Brewers Association estimated the total economic impact of the craft beer industry contributed \$33.9 billion and 360,000 jobs to the U.S. economy. During that year, California ranked first out of all 50 states in both the number of craft breweries (381) and economic impact (\$4.6 billion). Texas, New York, Pennsylvania and Colorado round out the top five states, accounting for 24% of total economic impact for U.S. craft beer.

The Garage-to-Glass Movement

The road to craft brewing typically begins as a venture in home brewing, often in a garage, shed or on a back patio, offering an avenue for novices to start brewing beer relatively quickly and inexpensively. Once their skills have been honed, many of the more avid home brewers seek to broaden their commercial market; breweries in this planning phase face a gauntlet of challenges in making their dream brewery a reality. From leasing space, space planning, permitting, and capital requirements, the transition into the commercial brewing arena does not come easy.

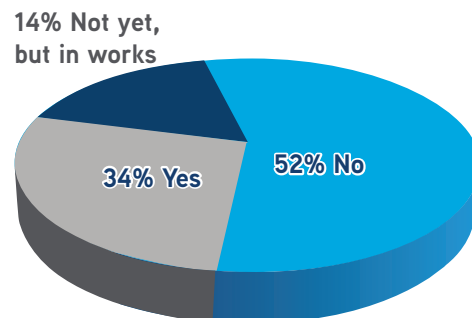
Top 10 Craft Beer States (Based on economic impact)

| REGION | ECONOMIC IMPACT (MILLIONS) | % OF TOTAL ECONOMIC IMPACT | EMPLOYMENT (FTE*) | # OF CRAFT BREWERIES^ |
|-------------------|----------------------------|----------------------------|-------------------|-----------------------|
| California | \$4,693 | 13.8% | 44,720 | 444 |
| Texas | \$2,316 | 6.8% | 20,171 | 113 |
| New York | \$2,191 | 6.5% | 20,818 | 154 |
| Pennsylvania | \$1,964 | 5.8% | 20,867 | 139 |
| Colorado | \$1,634 | 4.8% | 19,251 | 175 |
| Illinois | \$1,324 | 3.9% | 13,982 | 114 |
| Oregon | \$1,295 | 3.8% | 14,883 | 207 |
| Ohio | \$1,261 | 3.7% | 10,731 | 103 |
| Washington | \$1,006 | 3.0% | 13,148 | 246 |
| U.S. TOTAL | \$33,893 | 100.0% | 363,703 | 3,418 |

Note: *FTE stands for Full Time Equivalent ^2014 totals
Source: Brewers Association, 2012 Economic Impact Study

A growing trend has begun to emerge to ease the transition from home brewer to commercial brewer. Brewery incubators have started popping up across the country in both large and small markets providing serious brewers with the step-by-step guidance to become a full-fledged commercial brewery. In our survey of 29 markets, a third indicated that their market had an incubator presence while 14% indicated that brewery incubator space is in the planning phase within their market.

% of Colliers Markets with Incubator Space



Source: Colliers International

With the continued popularity of craft beers and a desire from consumers to brew their very own batch, brewery incubator facilities will surely continue to expand into more markets across the U.S., providing home brewers an easier path into the commercial craft beer arena.

Craft Breweries' Increased Footprint in Commercial Real Estate

In an effort to better gauge the impact the craft beer industry has been having on commercial real estate in recent years, Colliers International took a deeper look at craft breweries in 29 markets across the country. The goal was to look at the craft beer boom and the effect it has had on commercial real estate by measuring the industry's total footprint in the surveyed markets along with square foot growth rates during the last couple of years.

Average Occupied SF by Type and Year Established

| YEAR ESTABLISHED | BREW PUBS | MICRO | REGIONAL | ALL |
|--------------------|--------------|--------------|---------------|--------------|
| 1980-1989 | 8,543 | 9,442 | 47,454 | 20,682 |
| 1990-1999 | 7,946 | 13,664 | 45,813 | 15,179 |
| 2000-2009 | 7,119 | 9,270 | 22,197 | 9,673 |
| 2010+ | 7,732 | 6,702 | 57,164 | 7,717 |
| Grand Total | 7,733 | 7,569 | 42,088 | 9,758 |

Sources: CoStar, Colliers International

As reported in their August 2015 report, IBIS observes that regional craft beer production tends to parallel the nearby population (areas of higher population tend to have a higher share of establishments). Additionally, relative to their large beer manufacturing counterparts, the smaller size of craft beer establishments means that craft beer operations tend to prefer to be near major metro areas. Our survey findings confirm this. Colliers surveyed the space of 1,457 craft breweries across 29 markets, which together account for an estimated 14.9 million SF of commercial space where beer manufacturing occurs.

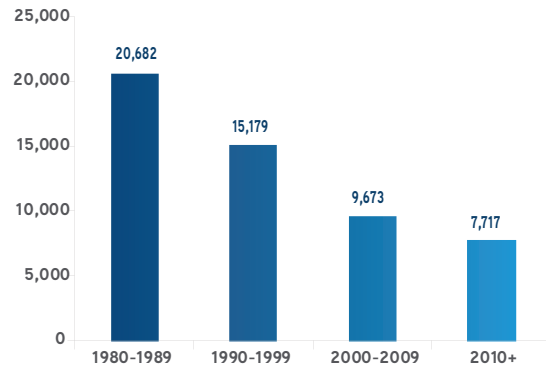
These breweries were categorized into 3 groups:

- 1. Brewpubs** - typically located in a retail restaurant location that allows for a limited amount of beer manufacturing on-site
- 2. Microbreweries** - typically located within a small single-tenant industrial building or multi-tenant industrial complex
- 3. Regional breweries** - tend to locate in larger single-tenant industrial warehouse buildings due to the increased size requirement for their operation

Our findings are as follows:

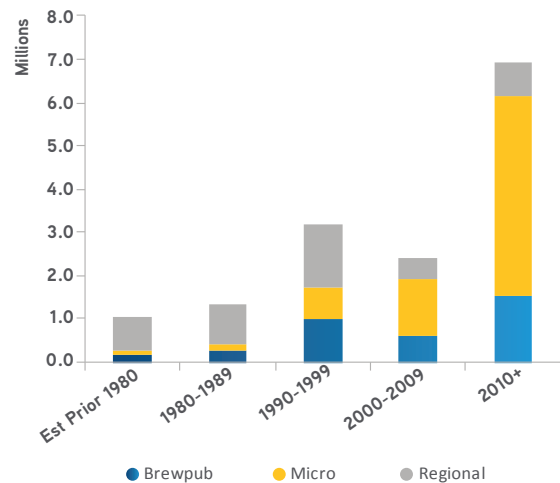
- Overall growth of the craft beer footprint was 20.7% from 2013 to 2014
- Growth in the craft beer industry is expected to continue across most markets in our survey, with another 418 breweries identified in the planning phases.
- Across the 29 markets, close to half the total square footage (45.6%) is occupied by microbreweries. Regional breweries follow with more than a quarter (30.2%), with brewpubs close behind at 24.2%.
- Moreover, the microbrewery share is growing. They accounted for less than 10% of the craft brewery space from 1980 to 1989, but now account for two-thirds of the craft brewery space of businesses established after 2010.
- The average total area of operation for brewpubs is 7,733 SF, microbreweries 7,569 SF. Regional breweries are much larger, with an average area of 42,088 SF. The overall average is 9,758 SF when the three categories are combined. We used these numbers to develop market-wide averages with the following results:

Average Occupied SF by Year Established



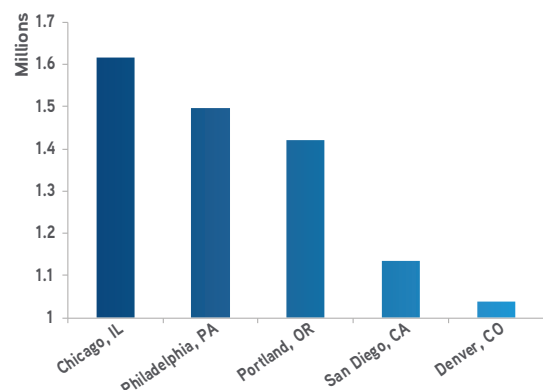
Sources: CoStar, Colliers International

Total Occupied SF by Type, Year Established



Sources: CoStar, Colliers International

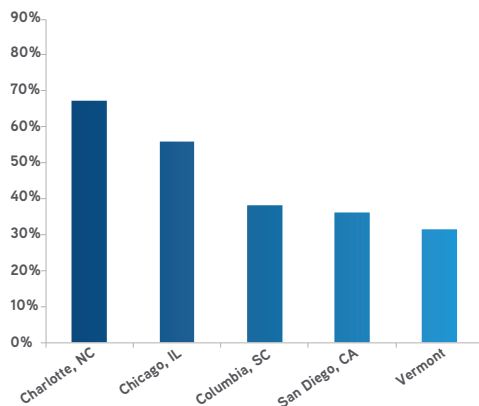
Top 5 Metros by Craft Brewery Inventory



Sources: CoStar, Colliers International

Our survey shows that Chicago, IL is the country's craft beer capital, with an estimated footprint of 1.6 million SF of craft brewery space. Philadelphia, PA (1.5 million SF); Portland, OR (1.4 million SF); San Diego, CA (1.1 million SF); and Denver, CO (1.0 million SF) round out the top 5 in terms of craft brewery space. Charlotte, NC, had the largest year-over-year growth rate from 2013 to 2014 at 77.0% with Chicago, IL at 65.9%, Columbia, SC at 47.9%, San Diego, CA at 45.9% and the state of Vermont treated as its own market with a 41.5% growth rate.

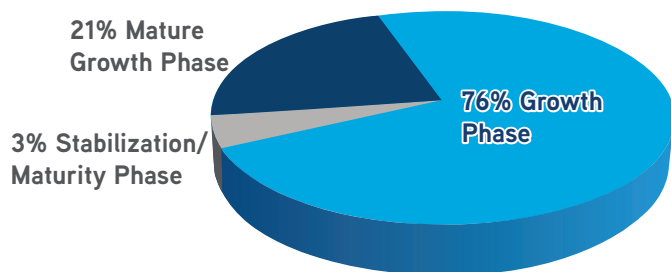
Top 5 Metros by Craft Brewery SF Growth (% growth 13'-14')



Sources: CoStar, Colliers International

The overall consensus through the survey of these 29 markets is that craft beer and the breweries within each market have resonated with the consumers as demand has picked up over the years and remained constant. This held true for all types of markets, big and small, urban, suburban and rural. An overwhelming three-quarters of markets indicated that their local craft beer industry is still well within the growth phase of the business cycle, portending an optimistic view on the future growth of the industry. Optimism in the markets is further strengthened by the 418 breweries in the planning stages throughout the surveyed markets, which will lead to more increases in the total brewery inventory. The top 5 markets for breweries in planning are led by Denver, CO with 62; Portland, OR, San Diego, CA and Seattle, WA with 41 each; and Chicago, IL with 39.

Business Life Cycle of Craft Beer Markets



Source: Colliers International

The addition of new microbreweries and brewpubs will add modest amounts of square footage to each market, but the real impact on commercial real estate will be felt through expansion plans of existing microbreweries as they begin to make the transition into regional brewery operations. Breweries eventually reach a point where they outgrow their original space and start to gain market share through expanding their distribution channels, thereby driving them to take up larger swaths of space to accommodate their growing operation. A number of breweries have recently expanded their operations by opening large facilities, which will enable them to get their product quickly to an increased number of markets across the country. Most notably, California's [Sierra Nevada Brewing Company](#) recently opened a 300,000 SF facility in Mills River, NC and [Lagunitas Brewing Company](#)¹ opened a new 300,000 SF facility in Chicago, IL. Additionally, Colorado's [New Belgium Brewing Company](#) completed a 133,000 SF facility in Asheville, NC.

Craft Beer and the Repurposing of Commercial Real Estate Space

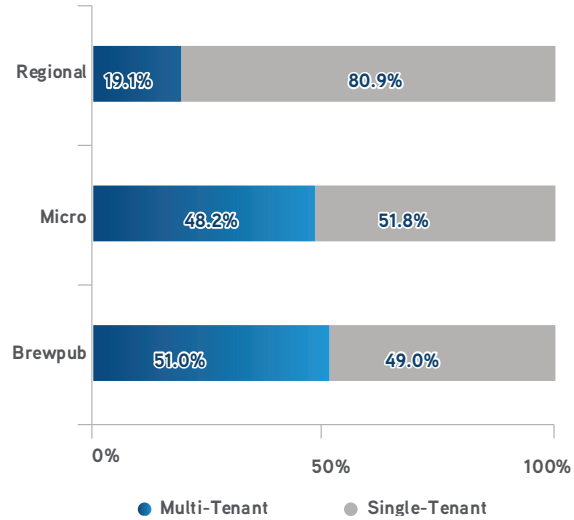
Typically, craft breweries operate in industrial space that has the infrastructure in a place with access to water, a sewer system and the power capacity necessary to run a full-scale brewery manufacturing operation. Through the repurposing of space, it is not uncommon for a brewery to set up operations in an antiquated industrial building. These opportunities are often sought out because they are usually cheap to acquire or lease, bring a sense of character to the brewery, and have the potential to offer tax incentives through revitalization efforts depending on programs in local jurisdictions. A brewery can bring new life to a vacant industrial building or retail shopping center and can help boost leasing demand. Locate a brewery in a walkable neighborhood, and it can become an instant draw for existing and potential residents. Landlords are taking note of craft beer as a growth industry, which will create an increased demand for their properties.

Craft beer is as much about getting creative with the space the brewery is located in as it is about creating unique beer recipes. Go into any real estate market, and you're sure to find a craft brewery in a repurposed location that other commercial real estate users surely passed on. Chicago's [Argus Brewery](#) makes its home in a building built in the early 1900s that was a former stable for the [Schlitz Brewing](#) horse teams and carriages. Other examples of breweries using repurposed space for their operations include [Station 26 Brewing](#), which operates in an abandoned firehouse in Denver, CO, and [Jailhouse Brewing Company](#) in Hampton, GA, outside of Atlanta, which has their brewery and taproom in a former 1920s-era jail. Properties that are often overlooked by others have the potential to offer the perfect solution for craft brewers looking for commercial space.

¹ As of September 10, 2015 Heineken has a 50% stake in Lagunitas in an effort to expand operations globally. Lagunitas will no longer be considered a craft brewery since Heineken has a stake greater than 25%.

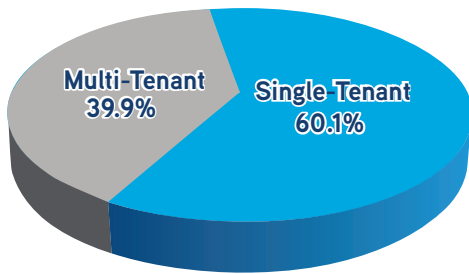
In our survey, an estimated 40% of all establishments are located within multi-tenant space with the remaining 60% in single-tenant buildings. The size of the operation influences the space considered. For example, 80% of regional breweries operate in a single-tenant buildings, while only 52% of microbreweries and 49% of brewpubs do the same. Our survey also revealed that the more mature the local industry, the more likely top craft breweries will make use of retail-industrial space. The more mature the craft beer market, the more likely the top brands in that market will occupy retail-industrial space. About three-quarters of the best-known craft brewers in the earliest growth phase markets are located in retail-industrial space, rising to 83% for the mature growth stage markets and **all** breweries that are in the stabilization/maturity markets.

% of Occupied Space by Building Tenancy & Type



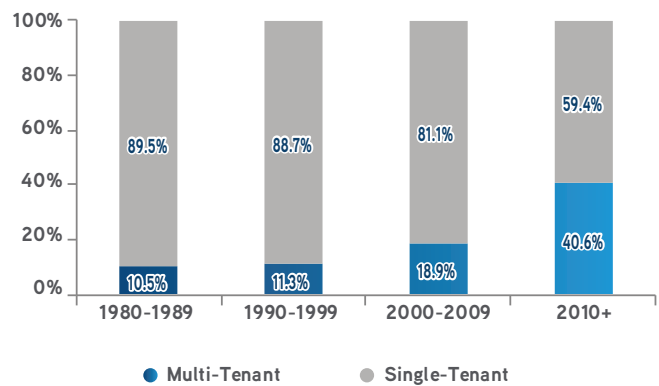
MULTI-TENANT VS. SINGLE-TENANT

% of Occupied Space by Building Tenancy



Sources: CoStar, Colliers International

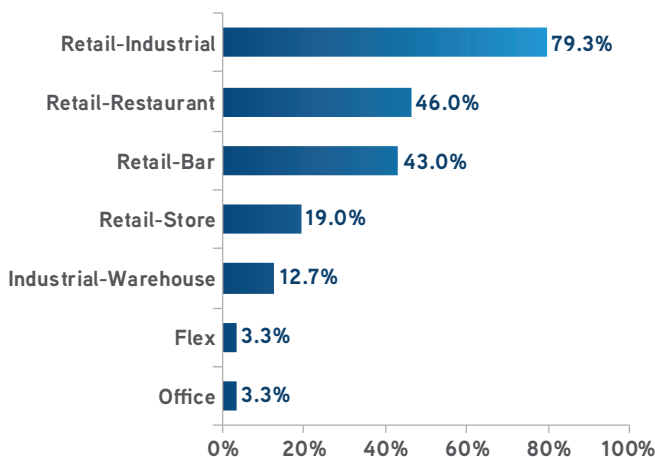
% of Single vs. Multi-Tenant Space by Year Established: Regional Breweries



Real Estate Formats Used by Craft Breweries

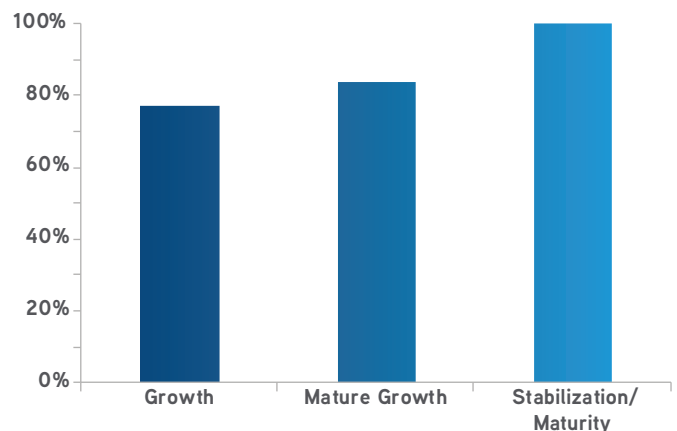
Colliers markets were asked for the top 3 craft beer brands in their market and to identify which formats were used by those brands:

% of Top Craft Breweries in Each Market by Type of Facility



Source: Colliers International

% of Top Craft Breweries Using a Retail-Industrial Facility by Maturity of Market



Ranking Craft Beer in Commercial Real Estate

| MARKET | RANK: ESTIMATED SF | RANK: SF GROWTH RATE '13-'14 | RANK: PER-CAPITA FOOTPRINT | RANK: TOTAL BREWERIES | RANK: TOTAL BREWERIES IN PLANNING | RANK: AVG HH EXPENDITURE ON BEER & ALE (MSA) |
|-------------------------|--------------------|------------------------------|----------------------------|-----------------------|-----------------------------------|--|
| Chicago, IL | 1 | 2 | 18 | 2 | 5 | 27 |
| Philadelphia, PA | 2 | 26 | 10 | 4 | 8 | 16 |
| Portland, OR | 3 | 14 | 4 | 1 | 2 | 17 |
| San Diego, CA | 4 | 4 | 7 | 6 | 4 | 28 |
| Denver, CO | 5 | 19 | 6 | 5 | 1 | 14 |
| Seattle, WA | 6 | 28 | 11 | 3 | 3 | 21 |
| Cincinnati, OH | 7 | 20 | 8 | 13 | 14 | 8 |
| Asheville, NC | 8 | 15 | 1 | 17 | 24 | 3 |
| Minneapolis-St.Paul, MN | 9 | 22 | 14 | 7 | 19 | 26 |
| Vermont | 10 | 5 | 2 | 12 | 22 | 2 |
| Boston, MA | 11 | 8 | 22 | 8 | 17 | 24 |
| Houston, TX | 12 | 7 | 25 | 15 | 26 | 23 |
| Milwaukee, WI | 13 | 18 | 9 | 18 | 6 | 25 |
| Cleveland, OH | 14 | 25 | 15 | 9 | 16 | 5 |
| St. Louis, MO | 15 | 17 | 20 | 20 | 18 | 10 |
| Atlanta, GA | 16 | 16 | 24 | 14 | 11 | 20 |
| NYC/Long Island, NY | 17 | 23 | 29 | 11 | 7 | 19 |
| Madison, WI | 18 | 24 | 5 | 16 | 23 | 13 |
| Maine | 19 | 12 | 13 | 10 | 10 | 22 |
| Nashville, TN | 20 | 10 | 19 | 19 | 9 | 9 |
| Charlotte, NC | 21 | 1 | 23 | 25 | 21 | 11 |
| Kansas City, MO | 22 | 21 | 21 | 22 | 20 | 15 |
| South Florida | 23 | 13 | 28 | 21 | 12 | 18 |
| San Francisco, CA | 24 | 9 | 12 | 24 | 13 | 29 |
| Grand Rapids, MI | 25 | 27 | 16 | 23 | 25 | 7 |
| Charleston, SC | 26 | 6 | 17 | 27 | 28 | 6 |
| Columbus, OH | 27 | 11 | 26 | 26 | 27 | 4 |
| Greenville, SC | 28 | 29 | 3 | 29 | 15 | 1 |
| Columbia, SC | 29 | 3 | 27 | 28 | 29 | 12 |
| Grand Total | 14,921,662 | 20.7% | 0.15 | 1,457 | 418 | \$164.47 |

Sources: CoStar, Brewers Association, Colliers International, Investopedia, BLS Consumer Expenditure Survey, American Community Survey

Note: Estimated SF only includes brewpubs, micro & regional breweries. We took averages of brewpubs and microbreweries based on year established (1980-1989, 1990-1999, 2000-2009, 2010-present) to develop estimates of space where data was not readily available.

Findings

- There is an estimated total of 14.9 million SF of space occupied by craft breweries in the surveyed markets. Chicago, IL ranked first with 1.6 million SF while Columbia, SC ranked last with a total of 33,000 SF.
- From 2013 to 2014 craft beer experienced a 20.7% growth rate in occupied space across the surveyed markets. Charlotte, NC ranked first with 77.0% growth rate while Greenville, SC ranked last with a 2.7% growth rate from 2013 to 2014.
- The average per-capita footprint for all markets is 0.15 SF. Asheville, NC ranked highest with a per-capita footprint of 1.58 followed by Vermont at 0.86.
- A total of 1,457 breweries were surveyed across the 29 markets. Portland, OR had the most at 196 total breweries followed by Chicago, IL (144); Seattle, WA (119); Philadelphia, PA (116); and Denver, CO (114).
- The average total household expenditure on beer and ale per year out of all the markets was \$164.47. Greenville, SC ranked highest with an average household expenditure of \$175.78 while San Francisco, CA ranked the lowest at \$153.48.



Conclusion

The rise of craft beer in recent years is attributable to changing tastes, which have led consumers to seek out a more localized diverse selection of beer. Craft brewing continues to take market share away from traditional non-craft brewers. If the recent trends are any indication of the future of the craft brewery market for the US, then the forecast is indeed bright for craft beer. In the markets surveyed by Colliers International there are more than 400 breweries in the planning stages. Should all those planned breweries ultimately open their doors, we can estimate an additional 3.1 million SF of craft brewery inventory to be occupied in the near future based on typical brewery sizes, which will boost the already-burgeoning craft beer industry. The vast majority of these new breweries will continue to follow the existing model of primarily occupying industrial space, while also including a retail component within their operational space.

Of the 29 markets surveyed, the top 5 markets represent 45% of the total space occupied by craft breweries and 50% of breweries in the planning phase. The larger markets will continue to see the bulk of growth in commercial real estate space occupied by breweries, but smaller craft beer markets present growth opportunities as well. Less-saturated craft beer markets like Milwaukee, New York City/Long Island, and Nashville only represent 9% of the total craft beer inventory, but

represent 19% of the total craft breweries in planning. Opportunities for growth of craft breweries in commercial real estate exist in the markets Colliers surveyed, which is indicated by both the number of breweries in the planning phase and the three-quarters of craft beer markets that determined that their market is well within the growth phase of the business cycle.

Although the *IBIS World: 2015 Craft Beer Production Industry Report* projects a somewhat flattening growth in the next few years relative to the last few years, the real impact of craft beer in the commercial real estate sector will be felt as existing craft breweries capture a larger market share and begin to implement expansion plans to facilitate the distribution of their product across markets more efficiently. As craft beer gains market share, there will be increasing pressure by the major beer companies to protect their profits, which will inevitably result in more buyouts of craft brewers. Such buyouts would reduce growth in craft brewery space due to consolidation of the industry. Nevertheless, the craft beer industry will continue to be a growth industry both in market share and within the commercial real estate arena as a result of its engaged and growing consumer base.

FOR MORE INFORMATION

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