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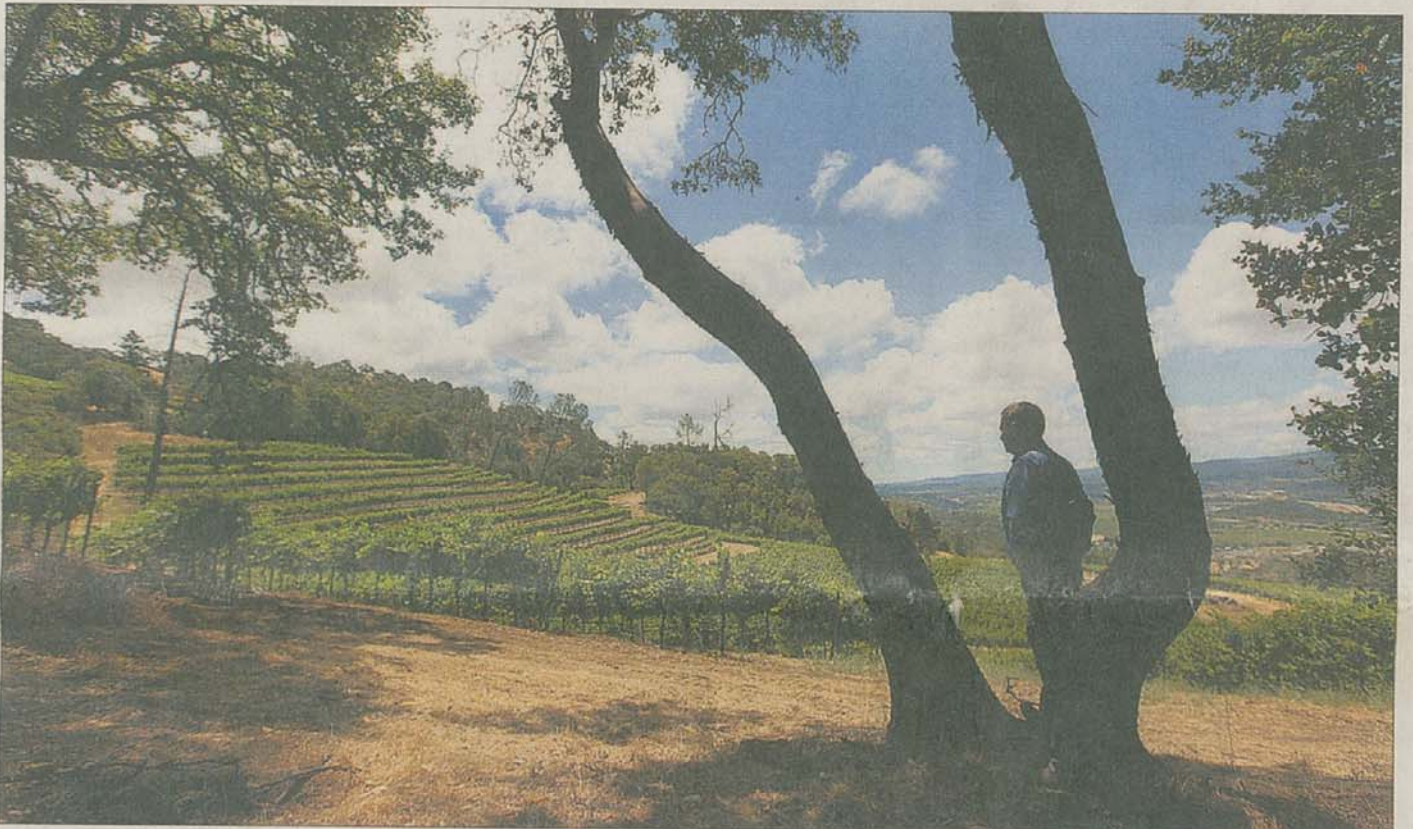
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SANTA ROSA, CALIFORNIA

'A SEA CHANGE IN THE MARKET'

Snapping up vineyards



Photos by KENT PORTER / The Press Democrat

Robert Nicholson of International Wine Associates helped broker a deal to sell 400 acres above Cloverdale to Duckhorn Wine Co.

As grape prices rise, wineries seek to protect supply by buying land

By CATHY BUSSEWITZ

THE PRESS DEMOCRAT

As the wine industry heads into a projected grape shortage and grape prices continue to rise, North Coast wineries are buying up vineyards to protect their supply.

In the past few weeks, hundreds of acres of prime vineyards in Sonoma County have changed hands as wineries sought to control costs in a market where scarce grapes are fetching top dollar.

"There is a little bit of a flocking to

TURN TO VINEYARDS, PAGE A7



Robert Nicholson, left, and Josh Grace of International Wine Associates

ON THE RISE

Last year, high-end vineyard values for the first time rose to as much as \$140,000 an acre. At the same time, there was an uptick in grape prices, with pinot noir selling for \$2,900 a ton and cabernet fetching \$2,100 a ton.

VINEYARDS: Grape crop smaller than average for past two harvests

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buying land," said Robert Nicholson, principal at International Wine Associates, a winery and vineyard brokerage. "This need for vineyards, this desire for vineyards, has come up in every single conversation with principals, with multi-national and privately held small business. I'd say it's the beginning of a gentle roar."

Napa-based Duckhorn Wine Co. bought a 400-acre vineyard in Alexander Valley from Artesa Vineyards & Winery in its acquisition in mid-June of the Ridgeline Vineyard property, which is planted with nearly 90 acres of cabernet sauvignon and other in-demand red varieties.

And in early June, Jackson Family Wines scooped up the 350-acre Ramal West Vineyard in the Carneros appellation.

The sales illustrate a swelling interest in vineyard properties throughout the state.

The Sonoma County grape crop has been smaller than average for the past two harvests, taking a financial toll on growers and leaving less excess wine statewide.

There has been little to no planting of new Sonoma County vineyards over the past few years, meaning a shortage could get worse as aging vines produce fewer grapes. Fewer grapes mean higher grape prices, and vineyard values have risen in step with the grapes.

For vineyard owners who were hit hard by the recession, higher land prices are a compelling reason to sell.

"Farmers have had a hard time over the past three years, and they might be looking to move on at this time because there is strength in the market," said Mark Stevens, vineyard and winery broker with Artisan Sotheby's. "I don't think it's evolved into price wars, but current market for this and near future years' crops has firmed up, resulting in strengthened vineyard values."

A winery producing premium wines typically gets 30 to 35 percent of its supply from its own vineyards, but many are looking to increase that percentage, said Nicholson, who brokered Artesa's sale to Duckhorn. Higher-end estate wineries can source up to 100 percent of their juice from their own vineyards.

"As the grape costs grow up, so does the value of vineyard land, so these wineries that are short on wine juice, their cost of goods is starting to go up," said David Ashcraft, vineyard and winery broker. "So the more land they own, the more they control the cost of goods."

The cost of a vineyard varies dramatically depending on the location, appellation and the grape varieties planted.

Those growing pinot noir grapes in the Russian River Valley can fetch \$90,000 to \$110,000 an acre, Ashcraft said. A more general average for Sonoma County would be about \$80,000 an acre, up from \$70,000 to \$75,000 a year ago, he said.

The vineyard market was strong in 2007 and early 2008 but struggled after the nationwide financial collapse, followed by sluggish sales that only recently have picked up, said Tony Correia, vineyard appraiser and founder of Fresno-based Correia-Xavier Inc.

"In most of the transactions we're seeing, the wineries are primarily the buyers," Correia said. "We have not seen wineries buying properties for a while. And I think that's a significant indication that we're seeing a sea change in the market."

In Correia's view, the current scramble for grapes and vineyards is part of a 10-year cycle in the wine industry, which takes grape growers and wineries through dramatic swings from excess supply and low grape prices to shortages and price peaks.

"We're obviously bouncing out of a significant downturn," Correia said. "In 10 years, we'll probably have this conversation again."

Meanwhile, brokers have their hands full, with vineyard deals, large and small, in the works around Sonoma and Napa counties.

The Carneros vineyard, originally planted by Buena Vista Winery, was sold to Jackson Family vineyards by Entertainment Properties Trust, the company that owned most of the vineyards and wineries once affiliated with now-defunct Ascentia Wine Estates.

Financial terms of the deal were not disclosed. But Ramal West Vineyard and its sister property Ramal East Vineyard, which is roughly equal in size, together were valued at \$25.6 million on Dec. 31, 2011, according to the company's annual report. The vineyard had been on the market for about a year.

The timing of Jackson Family Wines' purchase was a function of a high-quality vineyard coming on the market that fit the family's standards, spokesman Jason Hunke said in an email.

Grape prices can rise to such a point that it starts to make more financial sense to buy vineyards, said Quinton Jay, managing director of Bacchus Wine Fund.

"Once you start putting in strategic need to have a consistent source, and a source you can depend on, then all of a sudden the valuation can work," Jay said.

In the past, Duckhorn has bought grapes from Sonoma County for its Decoy brand, but the purchase earlier this month was the winery's first acquisition of Sonoma County vineyards, said Carol Reber, chief marketing officer at Duckhorn.

"The supply cycle of the wine industry has completely done a 180 in the last six months, and we've gone from a dire position of oversupply to dire position, for some, of undersupply, so it's a really important time to lock down your sourcing," Reber said.

Duckhorn's Decoy brand grew about 30 percent annually over the past two years, after the company introduced brands that were about half the price of other Duckhorn wines, which sell for \$50 to \$60 a bottle, Reber said. Duckhorn produces about 200,000 cases a year, more than double what it produced five years ago.

Kendall-Jackson brands also have grown. Sales of the company's La Crema brand increased 18 percent and its namesake brand grew 3 percent in 2011, according to Impact Databank.

"I think the more wineries can control their own fruit, the better," Stevens said. "We still have the public wanting good value for their product, and the price for the wineries is going up, so you've got a pinch going on for the wineries."

The recent sales could be just the beginning.

Entertainment Properties is hoping to sell the rest of its wine holdings, including the vineyards and real estate at Geyser Peak, Buena Vista Winery and Vineyards, Carneros Custom Crush, and other properties in California and Washington.

The future of the land owned by state pension giant CalPERS, once managed by Premier Pacific Vineyards, is uncertain. The portfolio is now managed by GI Partners and Canyon Capital. GI Partners hired Nicholson's firm to sell one of its Napa wineries. It's unclear whether the pension fund will be selling its vineyards, and a spokesman did not respond to a request for comment.

"I think there are going to be more wineries scurrying around looking for vineyards to buy," Nicholson said. "It's happening already, and that's good for the industry, good for the growers."

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