



## The pleasures, pitfalls of vineyard real estate

Sunday, September 11, 2005

By KATHLEEN DREESSEN

Register Correspondent

You can see it in the tourists' eyes as they sip wine in a tasting room. Their gaze settles on the sweet cottage or luxury estate in the center of the neat rows of vines. It doesn't take a mind reader to imagine their thoughts, "I could move to this beautiful valley, buy a house with some land, tend the grapes and they would pay for the investment." On their way out of the winery, they pick up a real estate magazine.

OK, stop laughing. Locals know the reality -- to make a small fortune in wine, start with a large fortune.

"People looking at vineyard property with a lifestyle component are who we think of as a hybrid buyer," said Kate Somple, broker and owner of Lifestyle Properties in St. Helena. "They want a vineyard and a nice home. But if they pay \$150,000 to \$250,000 an acre and add a \$3 million home, it just doesn't pencil out. They want the dream chateau or villa, but they'd have a really hard time carrying the load (through vineyard profits)."

Jenny Heinzen, director of winery and vineyard sales at Lifestyle Properties, agreed. "There's a lot of buyer interest in a vineyard with a house, and right now there are 20 or so on the market under 10 acres," said Heinzen. "When it's under 5 acres, we think of it more as a house with vineyard landscaping. This makes more economic sense because home winemakers can use the grapes."

What's the cost? "In the Napa Valley, it specifically depends on the house," explained Heinzen. "For a nice home on five acres, buyers would expect to spend \$3 million to \$5 million. I always advise that now is the best time to buy because prices keep going up."

Financing is another issue for someone coming into the valley expecting to raise grapes. "Lenders want the buyers to know the industry. This can be a big hurdle for us when buyers are otherwise well qualified. We've had to switch lenders because sometimes neither the buyer nor lenders are knowledgeable about vineyards. There are a lot of nuances and sometimes (grape buying) contracts don't transfer to the new owner, but usually we can work it out."

Potential buyers need to be aware of other hurdles before buying vineyard land. Steve Gregory, Realtor associate of Morgan Lane Realty, usually has 12 or 13 active vineyard listings. "Buyers need to be aware of the ups and downs of the market," said Gregory. "Just selling fruit they'll need to manage and farm, or hire someone to do it, in an industry that has year to year fluctuations. They need to be sure of the condition of the vineyards and assure they have a good contract. Generally, there's a provision that the party has the right to that year's fruit and one year beyond. Buyers should also expect to pay full price for the land."

As far as the variety of grapes, cab is still king. "People are more interested in red than white grapes," said Gregory. "When you can make \$3,400 to \$3,500 a ton for cabernet versus \$1,800 to \$2,000 a ton for chardonnay and viognier, it just makes more sense."

Unplanted vineyard land in Napa runs not less than \$75,000 an acre; in Sonoma County similar land runs from \$35,000 an acre to upwards of \$125,000 an acre in areas such as Alexander Valley and Dry Creek.

If a buyer wants to start from scratch, plant a vineyard and build a home, perils may abound, explained Michael Crain, president of Blakeslee & Crain Vineyard Advisors and Brokers, which operates in Napa and Sonoma counties.

"Buyers often don't anticipate potential problems," said Crain. "They're told the acreage is plantable, but there may be water issues. If it's on more than a 5 percent slope, Napa County takes a minimum of two and a maximum of seven years to get an Erosion Control Plan. That's a huge cost, and can run a buyer \$5 million in investment interest alone. The reality is that slope land costs are higher because of surveyors, engineers and other professionals needed. A person may buy the land and bump into issues they don't foresee, such as it costing \$5,000 to farm, rather than the \$3,500 they projected."

It doesn't stop there. "Buyers may not understand or underestimate potential problems with neighbors, bad water with high levels of boron and development costs of the property," Crain said. "They can mispredict the condition of the grape market or overspend on development costs related to soil fertility. If it's an austere site, without good rich soil and drainage, the grower can't get five to six tons an acre and may only get two per

acre."

Despite all this, Crain said that demand is high. "Vineyard land is a hot commodity. In Napa, there's not a lot of land left to plant. That's why we're seeing more in-fill and smaller acreage. Anywhere else, it wouldn't be planted, but because it's in Napa, it's vineyard property."

In just one of the complexities of farming, California is coming off a grape glut. "We just worked through a glut," said Crain. "Some vineyards outside of Napa and Sonoma couldn't afford to harvest. Napa and Sonoma survived because they grow the best grapes in the country. The demand for super premium and ultra premium grapes is so high; they are the last to feel results. While we stayed flat, others dropped. The growing wine market absorbed the oversupply."

Michael Crane, broker/owner of Napa Valley Land Brokers, deals with many commercial vintners. Crane's buyers are equally split between locals and those from out-of-town, and most are by referral. "The market is good and I'm currently working with a number of different wine industry people, who want to buy land, but hate to pay for a home site, which becomes part of their investment. When we evaluate a property's worth, we consider the quality of the home and other structures. What's happening now is the successful brands want control of their own property, with an ongoing source of fruit and a place to invest."

Crane understands the perils of vineyard management as he and his brother have vineyard property and produce 1,200 cases of Crane Brothers wine annually. "It helps that I can explain the pluses, minuses and costs of owning a vineyard to someone new who's interested in buying vineyard property," said Crane.

"Buyers need to understand if you're just starting out that you don't have much until your fourth year. Then there's the cost of wine barrels, custom crushing and everything else," Crane said.

Even with all that, Crane said he enjoys the vineyard and making wine. He thought a moment and laughed. "But I'm not leaving real estate to become a full-time vintner."

[Return to NapaNews article](#)