



Bergman Euro-National Wine Country Professionals: Vineyards, Estates & Wineries

Fall 2007

Where Is Everyone?

Wine sales are up, grape prices are climbing and this year we are experiencing a short grape harvest. This will push demand and grape prices up, the vineyard values are climbing faster and faster, the bottom of the housing market is getting closer every day, and some of the higher priced properties are still selling nicely. So, where are the rest of the real estate buyers?

The smart ones are buying vineyard properties and lots of them. Many of the buyers out at this time happen to be insiders, also known as industry buyers. These inside buyers are larger wineries and vineyard investors who are out in force to take advantage of the low market prices. Believe it or not we tend to think that the current prices will look cheap in the not so distant future.

Insider Buying

What do the insiders know that no one else knows? Probably that vineyard values will be climbing even faster than they already have and the larger vineyard properties are far and few between. Then you ask, why will the prices be going up? The answer, simple as it is... Supply & Demand. We already know that we are living in one of the most blessed areas in the world due to proximity to the rugged Pacific Coast, the great city of San Francisco, snow covered mountains of the Lake Tahoe area, a near perfect climate, amazing restaurants, and last but certainly not least the finest wine making country in the world. Our land is so precious that it will rival some of the highest priced land throughout the world in the near future. Here's the secret, they aren't making any more of it.



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Of course within our wine country there are some areas that are more in demand than others. Some of the more coveted areas are the Alexander Valley, Russian River, and Sonoma Coast in Sonoma County. In Napa County just about anything along the 29 Corridor and Silverado Trail in Napa Valley will create a buzz. Within the last few months we have seen the industry buyers out writing offers on properties with high quality grapes or land with the potential to grow ultra premium grapes in both Napa and Sonoma Counties.

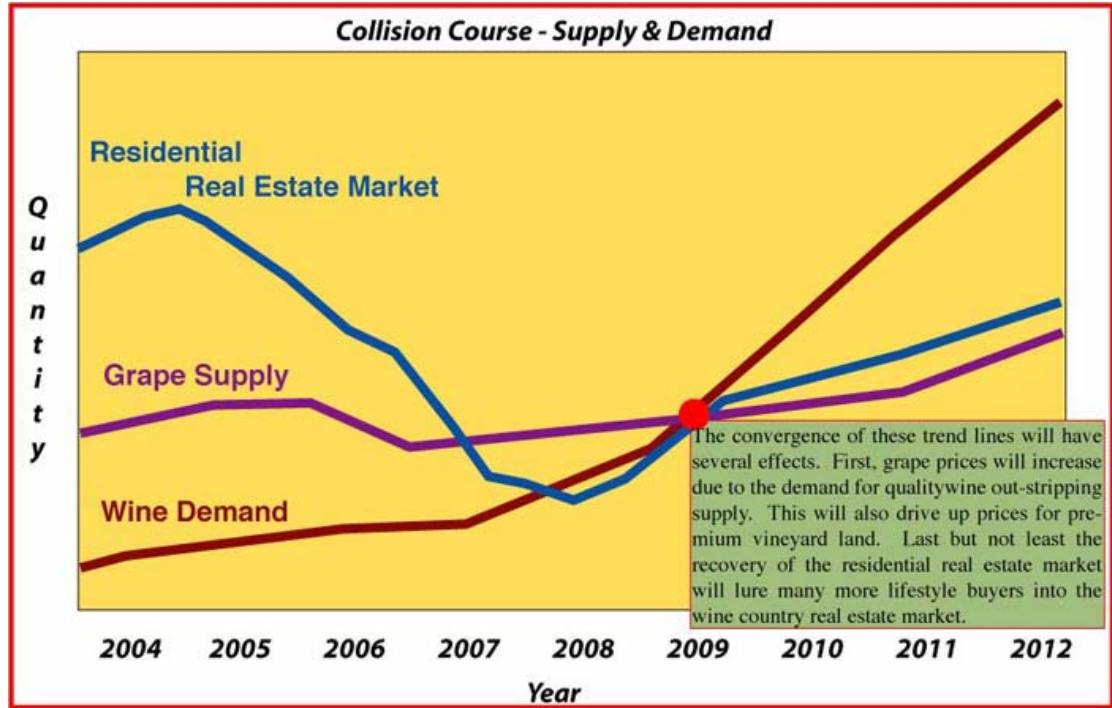
This may sound counter to the information you read in the newspapers concerning the real estate market where prices are coming down and properties are sitting on the market for what seems an eternity. In our case not only does, location, location, location make the difference but throw in quality, quality, quality and you will have a property that (if priced realistically) will not stick around too long.

To dig a little deeper into what is driving these purchases, one has to look at the type of buyer who is making the big moves. The current industry buyers are some larger wineries and vineyard investment groups. They certainly aren't making these purchases just for fun. The industry buyers have put some thorough analysis into their buying decisions. What it comes down to is that for wineries it will be more inexpensive to make wine from vineyards that they own rather than purchasing all of their fruit from growers. Not to mention the equity they will gain in owning the real estate over time. For the vineyard investor, they see an

increasing return from the sale of the grapes and increased value in the real estate going forward.

Opportunity Knocks

The vineyard market definitely runs on a different trend line than the residential debacle that we're all reading about. That doesn't mean we won't be affected in the short term by all of the bad press regarding the real estate market as a whole. The media tends to create self-fulfilling prophecies and we're certainly seeing that as many of the lifestyle buyers are skittish. Not only are they skittish but jumbo loans (loan amounts of more than \$417,000 which are necessary for most purchases in wine country) cost more than they did three months ago. There in lies the rub. Most of the lifestyle buyers, many of whom can pay cash, are going to miss opportunities and will likely jump in when the market takes off. By waiting until the residential real estate market gets rid of its hang over, the lifestyle buyer will have missed out on some valuable equity.

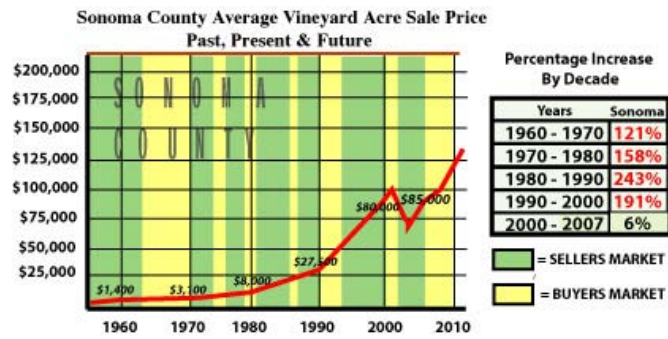


We envision a crash course of sorts for the vineyard real estate market based on two fronts that will collide in the next couple of years. The first front is the eventual end to the current real estate blood bath within the next year or so. When this happens the media will lose its interest in real estate bashing and there will be a general recovery, and eventual acceleration in value. The other factor, more important for our own backyard is that grape prices are going to go up. If you've been paying attention to the industry for the last 7 or 8 years you know that there have not been any substantial plantings and in some cases, especially the central valley, there has been a major removal of vineyard. At the same time demand for wine has continued to increase and we see no reason for that to change, this is notably so for premium wines. Add to the equation a weak dollar that improves our wine export value to foreign buyers while creating a price blockade to imports and we have what we believe will be a substantial run up in the not so distant future.

In Napa County the average value for an acre is approximately \$185,000 to \$210,000. With 3 + years to go in this decade Napa has already surpassed our expectations. Sonoma County is slowly making its way but did encounter a set back around the year 2003 along with most of the rest of California vineyard locations.



The current value for an average acre of vineyard in Sonoma County is approximately \$80,000 - \$90,000 / acre. Will Sonoma break its tradition of over 100% appreciation every decade for over 50 years? In 2002, 2003, and 2004 the vineyard values had dropped 30% under what they were in 2000 due to an enormous glut of grapes. Today the average vineyard acre in Sonoma County has seen not only a comeback to earlier highs but has started to work on the next leg up. With a looming shortage of quality grapes we feel Sonoma County is still in the running to perhaps see that 100% or more appreciation this decade. Napa County has certainly passed all expectations so far and it continues to climb with every sale.



Back in 2002 -2004 no one would have thought vineyard values would recover and in some cases surge. Here we are back at the top of the heap again. The trend line over 50 years of facts is the proof in the pudding, and we feel “There’s no turning back”. Dare we say the residential real estate market may go through a similar transition.

Buy Now, Or Pay More Later?

Yes, yes, yes, the housing market is on its ear, but not the upper end of real estate, vineyard, wineries and large vineyard estates. However, there are fewer buyers out there at this point. It always happens this way, people tend to wait until things have gotten very expensive to buy when they should be buying before the market really heats up.

The industry buyer is in the market due to watching the “Buy Signs” that we are experiencing at present. The “Life Style Buyer” is still sitting back waiting for the sky to fall, and when it hits him on the head he will wake up.....Oh it’s time to buy! By then prices will be up 10% to 20% and the funny thing is that the life style buyer will feel good paying it. Things take time to catch up with themselves and this is a perfect example. We are getting closer to the elusive bottom (residential) and people will wait to see if everyone else sticks their foot in the water before they dive in. By that time the pool will be full, most opportunities will be picked over and there will be a buying frenzy. This is just another cycle, but it is the time of the “Golden Rule”, those with the gold will rule. Most of the industry buyers are paying all cash.

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