



BERGMAN EURO-NATIONAL

KICKOFF 2011 NEWSLETTER

Mother Nature and Mr. Economy

Happy New Year Fellow Vineyard and Winery Owners,

It appears we've made it through the first decade of the new millennium with just a few bruises, mostly from the last few years. 2010 ended with a lot of questions about our future, but there is a good feeling going into the New Year.

2011 has to be better than 2010 as we are seeing more spending, higher wine sales, better attitudes and the willingness to venture out from our safety zones. Vineyard and Winery sales are starting to pick up and we think there will be numerous opportunities to take advantage of in 2011.

We hope our article offers some assurance that things are turning around and that this year will most certainly end up better than the last one. It's a slow recovery, but it's going in the right direction. Just get out there and do the best you can because attitude is everything.

Sincerely,

John Bergman & David Ashcraft

As vineyard and winery owners we know that there are three factors that account for our success. They are: Mother Nature, The Economy and Management. We also know that out of these three variables, we can only control one of them, Management.

Mother Nature can be our best friend or our worst enemy. She can be warm and nurturing, she can turn on a dime to be hot, cool, cold, wet and/or finicky, and at times she can be totally unpredictable. Of course we love and appreciate her but sometimes she's plain hard to read, just ask the weatherman or many of the growers this past season.

As for Mr. Economy, His basic temperament level has to do with supply and demand manipulated by buyers and sellers of goods and services. Our local economy is in large part based on the amount of discretionary income available to domestic and international consumers to purchase the goods we produce.

It's no secret that the economy has tanked and it's been more difficult for consumers to purchase our fine wine. However, there are indicators showing that it is starting to change, in fact wine sales are up this year over last. People have settled into the new reality, but are spending less on that bottle of wine that they drink with dinner each night. Those who haven't lost their jobs are spending more at restaurants and on fine wine. Tax cuts have been extended and there is some optimism about moving forward.

Management is the one variable an individual can control. We can make the decision on the style we implement be it sustainable or organic, whether we decide to mow or disc, whether we are farming for quantity, quality, or both. We have the power to choose how we manage our vines and the quality of wine we make. And even then with the best practices in place we can still be surprised by Mother Nature and/or Mr. Economy.

Looking Back

2010 provided a double whammy creating a series of setbacks. It would seem that Mr. Economy called a meeting with Mother Nature to deliberately drive us all crazy. Combined, they conspired to make it nearly impossible for anyone to overcome the hurdles laid out for us in 2010.

It should be criminal! Can you imagine if either one of these characters was a real person? They would be put up for life sentences in prison. However, these two characters have absolute immunity from any liability whatsoever. They get away with all sorts of mayhem world wide, without any consideration to how we feel about what has just happened.

Ma Nature Shenanigans

After three years of drought Mother Nature decided to give us a solid drink last winter that was very welcome. Then as winter turned to spring it kept raining and raining, and as spring turned into summer it stayed cool and cloudy. She had forgotten to turn off winter half way through what was to be summer. Then due to her old age, she finally remembered that she was to give us Summer.... as if to make up for all the lost time she delivered two straight days of extreme heat that devastated our crops.

Thinking that summer would never come, the farmers began pulling leaves and opening canopies to allow as much sun in as possible, then without notice it happened. No sooner did we open ourselves to vulnerability, she struck with great vengeance.... Yes, we all remember those two back to back days of 107 degree weather. None of the grapes had a base

tan or any sun block and as a result many grapes were quickly turned into raisins. In two days some lost an entire crop but many more lost 10 - 40% of their fruit.

No sooner did she blast us with Sahara Desert heat we fell right back into a fall weather pattern of warm and cool temperatures and rain showers. At that point it was a run for the money between sugar levels, rain and frost. Halloween passed us by and still some of the grapes were hanging waiting to be picked. This was the latest harvest in history, thanks to Ma Nature.

Headaches, Havoc, & Empty Wallets

Possibly due to Mother Nature's age of several million years, she is getting a little forgetful and may need to move into a care facility and get herself checked for senility. Perhaps if all of us were to be a little easier on the environment she may not react as violently as she has in the recent past. That's up to all of us to figure out, hopefully sooner than later.

As Ma Nature was kicking our behinds this last year, Mr. Economy with help from his friends, our politicians, were still pushing up unemployment and taking away our wine buyers, making it more difficult to pay the bills, creating a lot of headaches, havoc and empty wallets. Mr. Economy was fluctuating without any emotion and this latest dip is no exception. Another factor has been the surge in world competition from areas like South America, Australia and other regions that are competing for our domestic market. These imports have taken a strong foothold in the market with their inexpensive wines.

It's Not All Bad

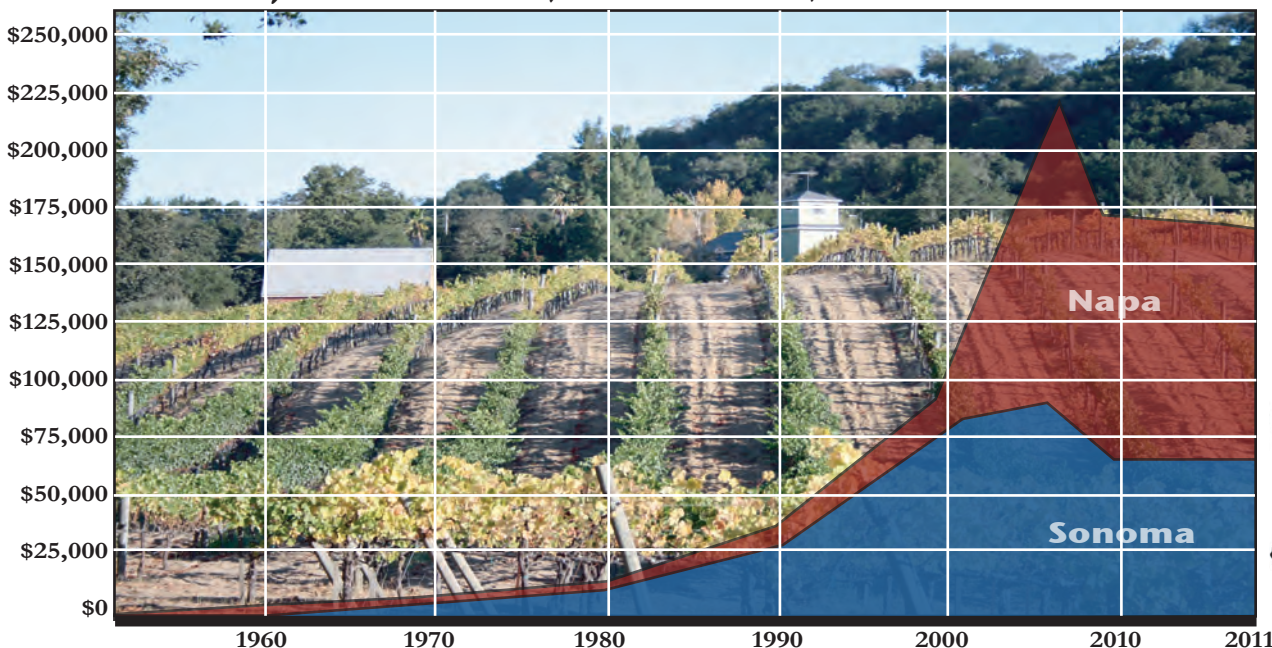
We've all heard about friends or family that have lost their jobs or homes over the last few years. It hasn't been an easy ride but at the very least things seem to be settling down. For those who have kept their jobs, a feeling of relative security has replaced the fear of mass layoffs. Those employed are now starting to trade back up in luxury items such as better quality wine and going out to dinner more.

Corporations have had record profits and never seen before amounts of cash on hand. The unemployment rate has remained stubbornly high but a great deal of uncertainty has been taken out of the market with the November elections and the continuation of tax cuts. Hopefully this will provide a base where we can start to grow and prosper again.

Some Of The Positive Signs That We Are Headed In The Right Direction Are:

- The recent sale of 13.25 acres of the legendary Bourn / Hayne Vineyard in St. Helena for the second highest price ever paid for a vineyard. Quality always demands a premium, even during the great recession!
- Stats reported by Wines & Vines showed that total domestic table wine sales grew 6% from the last year through the beginning of October 2010. For the same time period, imported table wine sales were flat. More encouraging for our area is that sales for \$20 bottles and above grew 22%.
- We are starting to notice comments like the following from a recent Boston Globe Article:
"All of a sudden, I'm beginning to notice people are asking for \$100 bottles of wine or champagne," said Rothenberg. "We had been cutting our inventory for expensive wine, now we are adding to it."... president of Federal Wine & Spirits on State Street in Boston. In 2008, holiday sales at Federal Wine & Spirits dropped 15% from the previous year, and last year the numbers were worse, according to Rothenberg. "So far this year, however, sales are closer to 2007's robust - pre economic crisis - levels", he said.
- Last but not least, the 2010 Holiday Shopping Season saw spending increase towards 2006 levels.

Average Price Per Vineyard Acre In Napa & Sonoma Counties



What Will The Future Hold?



How Much Is Your Vineyard Worth?

Now for the big question, what does the future hold? We know that there is no way to predict Mother Nature and we have followed vineyard values and wine industry swings for many years now and what goes down must come back up and visa versa. However, with the exception of the Great Depression most of the bad times end after a year or so. This dip is dragging farther out than any of us would like but we can hopefully see the end of the bad economy.

In our last article we stated what the vineyard values were at around June of 2010. Since then we have seen more and more vineyard owners receive lower prices for grapes and in some cases not able to sell them at all.

As the Great Recession wears on there appears to be more and more vineyard owners having trouble staying a float. Some have been in the business for generations and are now having to make some serious lifestyle decisions.

Vineyard values have taken a hit, even since June of this year, as recent sales show lower sales prices per vineyard acre. It's a very difficult pill to swallow for vineyard owners to find their vineyard that was worth \$90,000 +/- / acre (Sonoma County) a couple years ago is now worth \$65,000 / acre. In Napa a few years ago a vineyard that was worth \$250,000 an acre is now selling for \$175,000 for that same acre of vines. Grape prices have followed suit.

Lets Make A Deal

As for putting a deal together today, it takes quite a bit of maneuvering as "The Sellers still think its 2006, and the Buyers think it's The Great Depression". The fact is that it is somewhere in between. Perhaps it's just a settling out of our ambiguous economy and balancing out to what it should be. Every situation is unique and there are different drivers for each transaction. It's just a tough nut to swallow all the way around.

It will be interesting to see where we ended up with the overall 2010 harvest, being published in the March 2011 edition of the Grape Crush Report. We've heard about numerous drastic cuts in grape sale prices per ton and are curious to see if that carries over to all the grape purchase agreements that were in place, or if the price cuts were mostly an issue with the spot market.

Even with all the doom and gloom we are hearing rumors of some of the larger wineries having to purchase bulk wine in order to fulfill their demand. It is also important to keep in mind that it wouldn't take much to turn this market around. There have been basically no new plantings in the last few years, consumption has increased, and we were headed for a shortage of grapes before the economy fell off a cliff. When the economy turns around, wineries will be knocking at the grower's door again.

We are all in the same boat and we do need each other. So the wineries should be kind to the growers and the growers should be kind to the wineries. There will always be good and bad times, like elephants we remember who treated us fair in both. Now that the holidays have passed and it's back to work we go. We are looking to a better year in 2011 and wish everyone a very successful new year.

As you know we earn our living by selling vineyard, estate and winery properties in Napa, Sonoma, and Mendocino Counties. If you are interested in having us come out to see your property for a very confidential meeting and give you an idea of your property value, we would be honored to do so at no cost. What ever we discuss is strictly between you and us. The one thing that we know for sure is that everything changes, and we shall see better times ahead. What looks bad can turn into a good thing....

This reminds me of the story:

Two twin boys were told to dive into a pool of horse manure and great rewards would be theirs. One boy stood at the edge of the pool, frozen in place with fear and could not think of such a thing. The other boy dove in with great enthusiasm and swam around diving to the bottom again and again, finally coming out with a great smile on his face. He was asked; Why are you so happy? Dripping with smelly horse manure the boy answered'..... With all of this horse manure, there has to be a pony in here somewhere.

So, our advice is to keep diving into the pool and something good will surely happen.

John Bergman & David Ashcraft

Our firm specializes in the sale of vineyards, vineyard estates, and wineries in Napa, Sonoma, and Mendocino Counties. We deal very confidentially, if you have ever thought of selling or just wanted to get an idea of the value of your property, call (707-887-9822) and we will be happy to come out and meet you with no obligation. You may wish to visit us on the internet at www.BergmanVineyards.com to learn more about us, read more of our articles, and see our current list of wine country inventory.
