



All Systems Go!

As we greet another new year, we bid 2014 farewell and are excited about new opportunities in 2015. The wine country real estate market continues to flourish with a limited quantity of quality inventory and ongoing demand. We've been fortunate with an abundance of rain to start the rainy season and our community showed its resilience by coming together after the Napa earthquake last summer. While last year was full of challenges, we were able to overcome the hurdles and move forward. The wine business remains strong with another great harvest. All signs point toward another positive year. Speaking of the new year and exciting opportunities, I would ask you to take a look at my new web site, www.vintroux.com or www.vineyardandwinerysales.com where you can find this article and more wine country real estate information.

In this edition we will touch on vineyard sales, an overseas buyer update, the 2014 crop, the drought and ways to conserve water, the winery market and permit challenges, a spot check (RRV), 1031 Exchange quick reference, and a few other interesting tid bits. Let's get started!

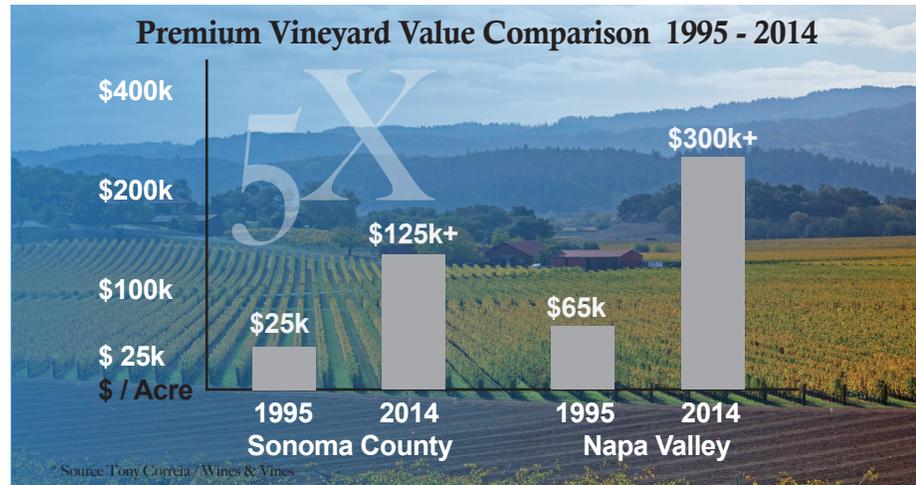
Vineyard Sales

We've come a long way since 2009 when it was almost impossible to give vineyards away. Slowly various industry players and lifestyle buyers started to make their move picking up vineyards, vineyard estates and wineries. Over the last several years many properties have traded driving prices to new highs. Even so, demand remains heated especially for areas known for producing the highest quality varietals like Pinot Noir in the Russian River and Sonoma Coast Appellations in Sonoma County, and Cabernet Sauvignon from any of the top tier regions throughout Napa County. That said, Cabernet Sauvignon remains a hot item throughout the North Coast. Other regions and varietals still remain attractive in top areas throughout Sonoma and Napa counties.

Real World Numbers - Still a bargain!

While there has been substantial appreciation and prices continue to climb, even the most expensive vineyards in Sonoma and Napa are a bargain compared to the Gran Cru vineyards of Burgundy and Bordeaux. For more than 15 years prices have maintained steady annual price increases.

Gran Cru in Burgundy: Recently vineyards at the Gran Cru level sold for anywhere from \$1,350,000 / acre up to \$6,500,000 / acre at the extreme high end. With that in mind, our own "Gran Cru" vineyards like To Kalon in the Napa Valley would still be considered a bargain... if it were for sale



Overseas Buyer Update

When speaking with sellers the conversation inevitably turns to the potential for an overseas buyer, many times focusing on "all the money coming out of China." There is some truth in the allure of all cash foreign buyers, but it varies by degrees. If we were to call San Francisco the epicenter of overseas buyer activity, then the sphere of activity fades quickly as you move away from the city and Peninsula. In wine country, Napa County would be considered the epicenter of overseas buyers (a much lower percentage than San Francisco). Once again, the sphere of activity quickly fades as you venture into lesser known areas. Even so, I've had European and Asian clients active in both Sonoma and Napa Counties this past year.

According to a 2014 Association of Reators survey, nearly 2/3 of overseas buyers buy with cash, compared to 1/3 of domestic buyers. However, the most important thing to keep in mind is that even though an all-cash Foreign Buyer is a possibility, the vast majority of buyers are domestic.



The EB – 5 Visa

While this sounds like another credit card offer, it is actually a vehicle for wealthy overseas investors to gain a visa or permanent green card. By investing \$500k - \$1,000,000 in a U.S. business that either creates or preserves 10 jobs, the overseas investor can obtain a visa or green card. This program has been around for nearly a quarter of a century and according to the Los Angeles Times, 2014 was the first year where allotment (10,677) was tapped out. For the last five years, the number of applicants has almost doubled each year with more than ¾ of the EB – 5 funds coming from China.

Harvest..... in July?!

One of the earliest starts to harvest on record in Sonoma County began at the end of July and helped ensure that the crop came in before winter rains arrived. All things considered, including the drought and earthquake, the 2014 growing season was about as nice as it gets. Grape growers were presented with barely any frost and mild temperatures throughout the growing season.

4 Million Tons – The New Normal

The 2014 crop came in early and came in strong, the third consecutive quality harvest in a row. Even though the 2014 harvest was less than the year before, it was solid and a bit surprising considering the drought conditions and consecutive large harvests before. A typical pattern would be a large harvest followed by a smaller harvest. Now that newer plantings are starting to produce and will continue to come on line, we are expecting that the 4 million ton crop is the new normal for California wine grape production. Fortunately for us, wine demand continues to grow and according to Western Farm Press, California makes up 10% of the world wide wine market. Within the United States alone, consumers purchased 375 million cases of California wine. The trend continues to be positive as wine consumption in the US has increased for the 20th consecutive year and we have even become the largest wine market in the world, ahead of France. Bravo!

Double Edged Sword

With several large harvests under our belt, we have plenty of juice in tanks. The good news is that the plentiful juice allows the industry to keep imports at bay for the present. The not so good news is that the plentiful juice brings down spot market prices for growers who do not have long-term grape purchase agreements. However, the long tested wisdom of location, location, location still holds true today in that if you are in a premium location growing premium varieties, your premium grapes still demand a premium. Maybe we should rename that saying... Premium, Premium, Premium...

The D Word

One thing is for sure, it's been a dry three years, one of the driest stretches on record. Until recently there wasn't a day that went by when there wasn't an alarming mention of the D word. Fortunately, we closed out 2014 with an abundance of rain. We remain cautiously optimistic for the rest of the rainy season as we claw our way out of the most serious drought in recent times.

Nonetheless, the pendulum has swung and we have to deal with the ramifications. Bills have been passed, tempers have flared, wells have run dry, and opinions have run amuck. In an ironic twist, no matter where you sit on the issue, the final word is that without water, you're sunk. Concerns over runoff, groundwater, riparian rights, well log confidentiality, well monitoring programs and all things water are serious issues in the Golden State. In Napa County there are groundwater allowances for wineries and vineyards. The groundwater allowance varies on location and amount with higher allowances on the valley floor and lesser amounts in the mountains. This current model was created in the early 1990's and shows that wine country has been aware of groundwater concern for decades.

In November the citizens of California voted to approve historic groundwater preservation actions. This forward thinking legislation will help protect our region and livelihood from future droughts and dry periods. The sustainable groundwater management plan requires local agencies to create management plans using the following timetable: **Ground Water Management Plan**

- > By 2017, local groundwater management agencies identified
- > By 2020, overdrafted groundwater basins must have sustainability plans
- > By 2022, other high and medium priority basins not currently in overdraft must have sustainability plans
- > By 2040, all high and medium priority groundwater basins achieve sustainability

Streams & Rivers

In a rare but encouraging sign, both agriculture and environmental interests have come to a compromise on protective buffer zones for streams and rivers in Sonoma County. The set back will range from 50 to 200 feet from the watercourse banks, including approximately 3,200 miles of streams and rivers in the area. The compromise will prohibit future farming and development in the buffer zone but will allow exemptions for wells and agricultural turnaround roads.

Recycled Water – Coombsville & Carneros

In another sign that necessity is the mother of invention, two areas in Napa County are excited about alternate water sources for landscaping and vineyards. Both areas are known for producing excellent wine grapes and spotty groundwater production. The five mile long Coombsville project broke ground in August with assistance from a state grant. Back in July property

owners in Carneros voted to approve a 9 mile long pipeline to provide recycled water to the area. These two projects will more than double the districts recycled water network and, as a result, we can all count on continued production of premium wine grapes from both regions for the foreseeable future.

Wineries

The wine industry has been on a steady track of improved sales and revenue. The trend is positive. Numerous acquisitions over the last few years are starting to pay off as bigger conglomerates continue to find economies of scale in buying up smaller to mid sized winery operations. It is expected that the pace of M&A activity will not be as robust going forward now that both real estate and balance sheets have vastly improved. Even so, both new and old players will continue to look for opportunities to get in the game.

One of the most valuable components of a winery is the winery use permit. The general components of a winery permit describe the amount of wine that can be produced, the number visitors allowed, and special events. As of late, the special event part of a winery permit has created a heated discussion throughout wine country. In one case, a well-known winery located in the Dry Creek Valley was penalized by Sonoma County for allegedly operating outside the scope of their permit. There has been debate over the lack of clarity regarding permits overall but one thing is certain, this example has sent a shockwave through the community. It also points to the increased value of permits that allow for more production and more events versus permits that are limited.

Spot Check - Russian River Appellation

The Russian River Appellation covers a lot of ground, nearly 140,000 acres. There are many different micro-climates including the cooler coastal ranges to the west, the warmer foothills to the east, and the gently rolling terrain in-between. It could be considered a universe within itself and locals are vying for their own unique designations. With that in mind, it is likely you will find someone describing a Russian River Pinot Noir or Chardonnay from an area you have not heard of but are already familiar with. These areas include Middle Reach (warmer, near Healdsburg), Laguna Ridge (west of the Laguna de Santa Rosa, south of Guerneville Road), Green Valley (west of Hwy 116, east of Occidental) Santa Rosa Plain (east of the Laguna Santa Rosa), and Sebastopol Hills: (west of Hwy 116, south of Bodega Hwy). All of these areas contribute to the greater RRV Appellation and produce high quality wines. The styles have a dramatic range in line with the vast diversity of the Russian River Appellation itself.

The Last Word

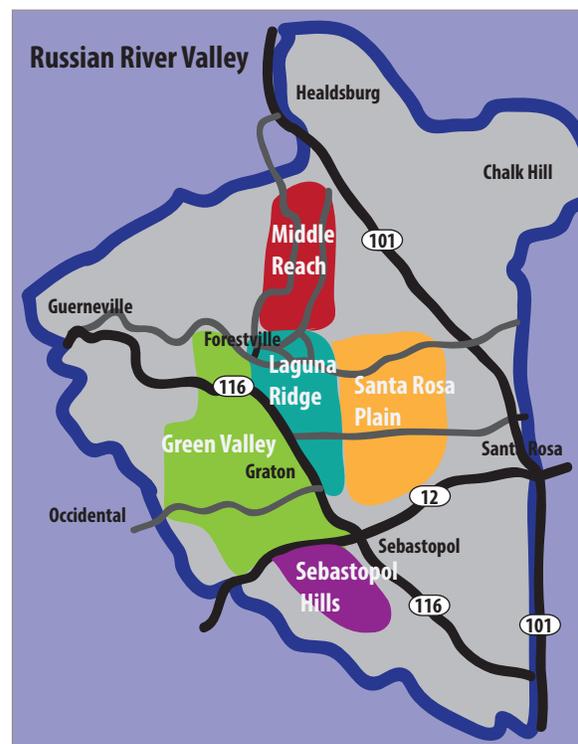
I wish everyone nothing but the best in 2015 and look forward to hearing from you with any questions or feedback.

1031 Tax Deferred Exchange

• Both properties, selling and buying, must be held for investment, business, or income use.

- > Sell your property
- > 45 Days from the sale of the property to identify the replacement property
- > 180 Days from the sale of the property to close on the replacement property
- > You must use a qualified intermediary (you cannot "touch" the money between the sale of the old property and purchase of the replacement property.
- > Titles Must Match – the title of the old property and replacement property must be the same, otherwise the IRS will disallow the exchange.
- > Reinvestment of Sales Proceeds – you must purchase a property of equal or greater value and you must reinvest all cash proceeds from the sale.

Consult with a Certified Public Accountant for any tax or financial advice / guidance prior to sale or purchase.



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