Vineyard Valuation
Wines & Vines

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Chateau Julien Wine Estates

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Appraising Agriculture Properties

As with Commercial and Residential Appraisals,

Agricultural Appraisals:

- Are prepared as of a Specific Date of Value
- Rely on Historic Market Data
- Serve a Specific Purpose
- And serve a Specific User

Key Market Factors In Down Markets

- Few buyers, and they are better informed
- Limited sales activity except for best properties
- Listings may signal a trend but aren’t reliable
- Lenders want good collateral and repayment
- Sellers often optimists must face reality
- Buyers can be pessimists (don’t have to buy)

Appraising In
In Down Markets

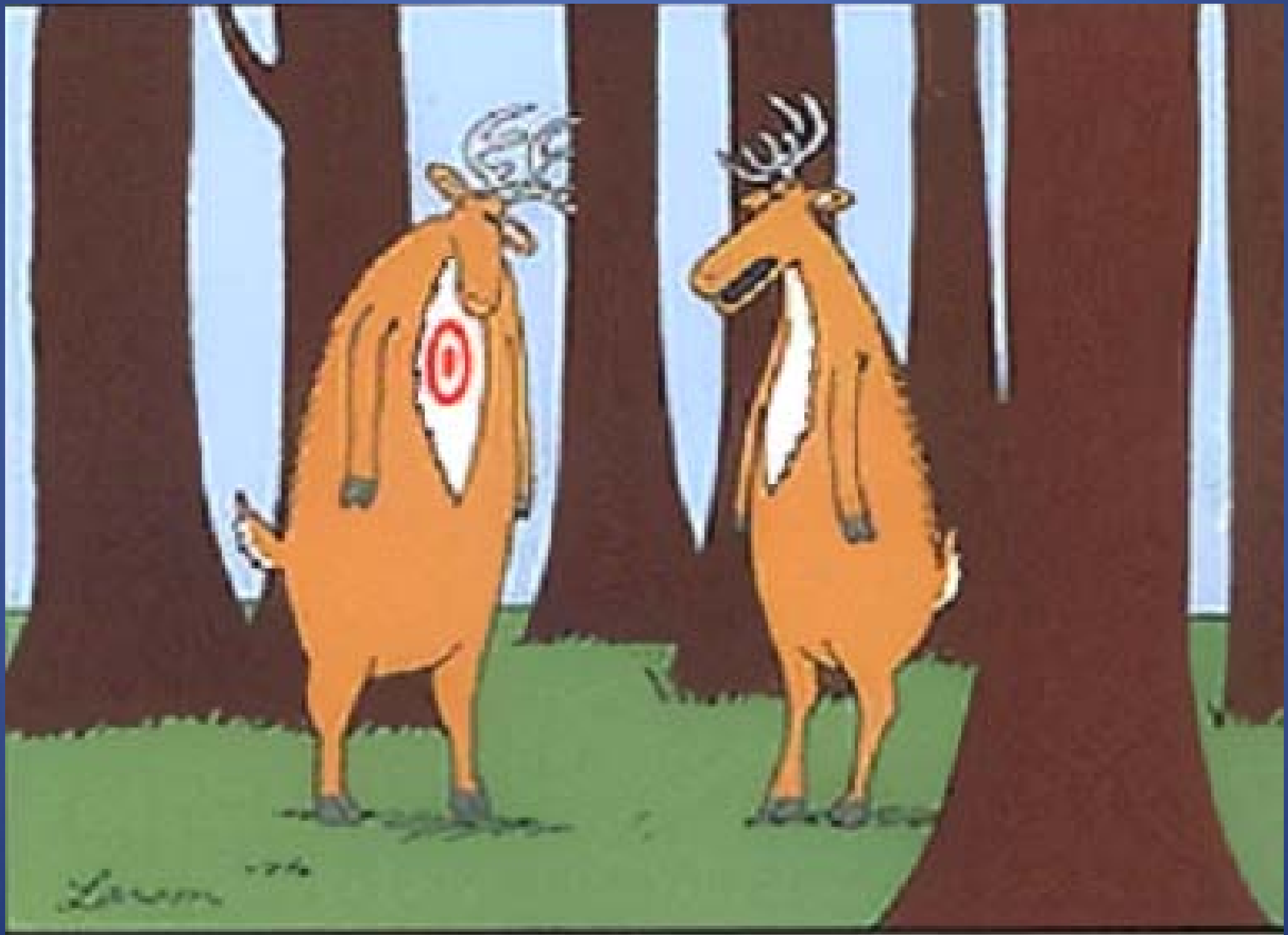
- Sales lag behind or follow the market
- Sales prices tend to be more volatile
- Less comfort in value conclusions
- Client’s more likely to challenge results
- Market uncertainty is our Reality

Lending in In Down Markets…

(Understanding Your Client)

- **Few Satisfied Clients:**
  - ➢ **High risk clients / deals should be turned down**
  - ➢ **Loans & portfolios may need to be downgraded**
  - ➢ **LTV's should be reduced to hedge market trends**
- **Risk Management is the New Reality:**
  - ➢ **Marketing times are increasing**
  - ➢ **Quick sales generally require discounts**
  - ➢ **Unpopular decisions must be made**

Appraiser's Reality in Unstable Markets



"Bummer of a Birthmark, Hal."

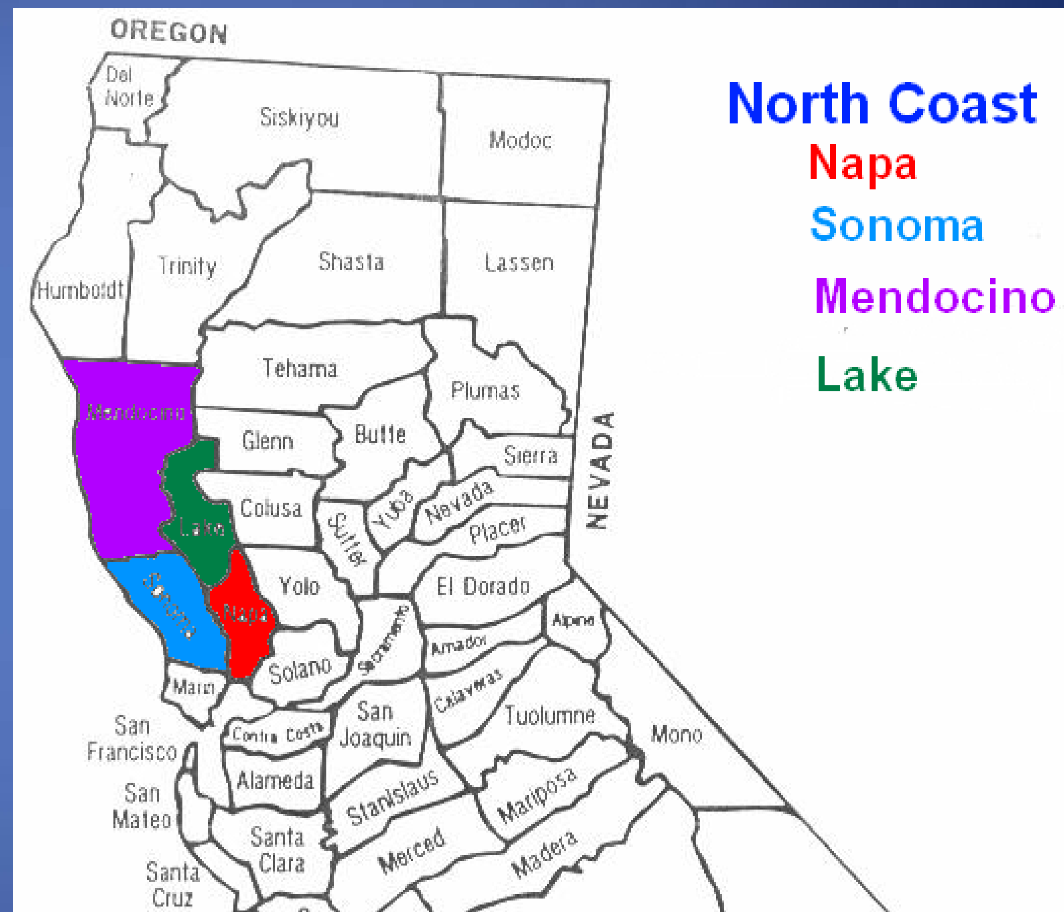
Vineyard and Winery Talking Points

- **Vineyards - North Coast (Good, Bad & Ugly):**
  - **Napa County**
  - **Sonoma County**
  - **Mendocino & Lake County**
- **Wineries - Central and North Coast**
  - **Winery Sales Activity**
  - **Winery Value Trends**
  - **Valuation Methodology**

North Coast Vineyard Region

Grape Acreage

County	Vine Acres
Napa	45,000
Sonoma	60,000
Mendocino	17,000
Lake	8,500
Marin	80



…over 130,000 acres of vines in North Coast…

North Coast Vineyards

- **Best Properties – Best Locations:**
  - ➢ **Buyers are buying “for the Best Properties”**
  - ➢ **Market interest is good “for the Best Properties”**
  - ➢ **Financing is available “for the Best Properties”**
  - ➢ **Sale prices are good “for the Best Properties”**
  - ➢ **Marketing times are low if appropriately priced**

- **Fringe Properties (properties with hair on them):**
  - ➢ **Little to no sales activity since 2007**
  - ➢ **Buyers are generally looking strictly for bargains**
  - ➢ **Sales that happen are generally bargain basement**
  - ➢ **Financing opportunities are very limited**
  - ➢ **Market prices have declined, but may be stabilizing**

Napa County Vineyard Trends

- **Location… Location… Location…**
- **Napa with its international reputation maintains the highest overall vineyard & plantable land prices in the State**
- **Contrary to most of the vineyard regions in the State, Napa continues to maintain strong sales activity and stable prices**
- **2009-2010 sales have been at or above market levels, although fringe area listing prices have softened**
- **Fruit demand and prices are softening as value price consumers “Chic to be Cheap” move towards “value wines”**

	St. Helena, Rutherford, Oakville		Remainder, excluding Pope Valley	
	Plantable $/ac	Vineyards $/ac	Plantable $/ac	Vineyards $/ac
Historic	$100-$175,000	$150 - $300,000+	$60-$100,000	$70 - $170,000
Trend	This market has generally remained stable over the past 4-5 years			

Sonoma County Vineyard Trends

- Sonoma County serves premium and ultra premium wine producers and continues to be second only to Napa County relative to property and grape prices
- Sonoma markets declined 15 to 25% between 2007 and 2009
- 2009-2010 market activity has been average with stable prices
- Grower returns and expectations are good, but there are few grape contracts being offered, and spot market prices are soft

	Prime Vineyard Regions	
	Plantable $/ac	Vineyards $/ac
Historic	$40-$50,000+	$60-85,000+
Trend	Market declined 15-25% but are currently stable	

Mendocino County Vineyard Trends

- **Coastal (Anderson Valley): Is the most recognized market in the County, known for high end Pinot Noir and Chardonnay. Sales activity is limited but values appear to be stable**
- **Central: This region produces grapes for many other regions, and has not really its own identity. Sales activity is very limited and values have softened 20 to 30%**
- **Grower returns and future expectations have declined. There are few if any buyers and the general outlook is bleak**

	Prime Vineyard Regions	
	Plantable $/ac	Vineyards $/ac
Historic	$7-$10,000+	$15-25,000+
Trend	The market has dropped 20 -30% and the trend is still down	

Remaining North Coast Regions

- **Lake County:** **This area historically follows on the coat tails of Central Mendocino County. Lake County produces grapes for many other regions, and does not really have its own identity. Sales Activity has been very limited, most sales are distressed, buyers are few, banks are cautious, and values are off >30%**
- **Marin County:** **Marin has only about 80 acres and while it is in the North Coast Appellation, it is not a highly recognized growing region, with most vineyards serving the 13+/- wineries in the region. We have no market data to rely on.**
- **Solano County:** **A small corner of the county is actually in both the Napa and North Coast Appellations, and values tend to follow Solano County pricing more than those seen in Napa or the North Coast regions.**

Wine Regions of California

California has
2,687 Bonded Wineries

North Coast	55%
Central Coast	25%
Sierra Foothills	6%
Central Valley	6%
Southern California	5%
Other California	3%

…Our focus today is on the North & Central Coast …

Winery Sale Activity

	Napa	Sonoma	Other North Coast	All Central Coast
2010	6	1	0	0
2009	4	1	1	0
2008	4	6	2	3
2007	7	6	3	3

- **Napa County with its international reputation continues to see fairly normal sales activity, with good overall price stability**
- **Sonoma County has seen sales activity slow significantly, with generally stable prices, and limited inventory of available sales**
- **Other North Coast sales activity has been in Mendocino County with limited sales activity. Anderson Valley appears to be stable, with 25 to 75% external obsolescence elsewhere**
- **Central Coast has not had a sale in two years, with few properties available for sale but no economic discounts anticipated at present**

Winery Value Trends

- The Best Wineries in the Best Locations:
  - Buyers are buying “the Best Properties”
  - Market interest is good “for the Best Properties”
  - Financing is available “for the Best Properties”
  - Sale prices are good “for the Best Properties”
  - Marketing times are low if appropriately priced

- Fringe or Secondary Area Wineries:
  - Little to no sales activity since 2007
  - Buyers are generally looking strictly for bargains
  - Sales that happen are generally distressed
  - Financing opportunities are limited
  - Market prices have declined

Napa Wineries

- **Napa has an international following and market reputation**
- **Wineries are in strong demand and commands the strongest values in the State**
- **Prime sites are limited and it is difficult and expensive to obtain new construction use and building permits and approvals**

  New construction for turn-key wineries, excluding processing equipment, ranges from $200 for a fairly generic winery to >$1,000 per sq. ft. for a Dream Winery
- **Site and permit values are location specific commonly ranging between $2,000,000 for an average valley floor location to >$5,000,000 for prime Highway 29 or upland locations**
- **Winery equipment components range from <$20 to >$50 per case of capacity depending on quality, utility, and components**

Other Winery Regions

- **Sonoma County: Historically winery improvement & equipment values transfer well between Napa and Sonoma County, with the prime difference being in site & permit values**

- **Mendocino & Lake County: A key concern in these counties is that they generally have more facility capacity than grape production, with much of the fruit moving out of the area for processing. Local winery sales generally support external obsolescence between 25 and 75% when compared to out of area winery sales, and site values must rely on local sales (*Anderson Valley sales generally require no discounting*)**

- **Central Coast: This area is not significantly different than Mendocino & Lake, except that there is more fruit than facility capacity, even considering the fruit shipped out of area for processing. As a result, local winery sales have historically supported no external obsolescence when compared to out of area winery sales, again relying on local sales for site values.**

Winery Valuation Summary Points

- **Winery Valuation**: This is not a stand alone discipline, you must also be able to value vineyards, plantable land, estate sites, residences, and equipment, as these are typical to most wineries and winery sales
- **Sale Limitations**: Developing reliable unit values is difficult since most parties to the sale won't readily divulge the sale price, let alone inventory values, vine acres, equipment details, sq. ft. data, etc…
- **Component Allocations**: Breaking a winery sale down to it's key components (site, permit, buildings, equipment) allows key component data to potentially be used over a much broader market area
- **Unit Values**: The most apparent units of comparison are $/sq. ft., $/gallon, and $/case. Given differences in location, facility design, use, and the fact that many clients exclude equipment, I feel that key component allocations (site & permit, $/sq. ft. for buildings & site improvements, and $/case for equipment) are most effective. However, in some instances $/case and/or $/gallon are appropriate

…

Conclusion

- The best properties in the best areas still attract buyers, with relatively good overall price stability
- There is growing concern for regions selling and serving high price wines, relative to future values
- The recession isn't likely to end soon, forcing owners, lenders, and market participants to rethink future ownership and marketing strategies
- While we appear to be in a holding pattern for much of the state, it still remains to be seen if we will see an increased number of distressed properties hitting the market in 2011
- Overall remain calm and don't assume all the negative press will come true

… *The only truth is that Time will Tell…*