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Oregon Land Rush 2010

by Peter Bouman

Is 2010 the year you should buy that Oregon vineyard or winery you've been dreaming of? Although there's no clear answer, the bumper crop of vineyard and winery properties on the market could mean bargains for buyers and economic distress for sellers. But it could also mean growth and natural turnover in an industry that has been expanding for a decade. The dynamic market in Oregon has buyers and sellers wondering about the future of wine country properties.

Fred Marx, of Vineyard Properties Northwest said there are more vineyard and winery properties on the market now than he can remember seeing at any time. Marx says that properties are moving slowly as sellers look for 2007 prices, while buyers hope for 1995 prices.

As of Feb. 15, 2010, there were 10 wineries actively for sale statewide, three of which are confidential offerings. There are 28 vineyard properties now available, nine of which are part of the Hyland Vineyard Estates development west of McMinnville. Current winery offerings range in value from \$260,000 to \$7 million, while vineyard properties are currently asking between \$485,000 and \$6,900,000. Informally, property owners and brokers suggested there are another five winery and seven vineyard owners who are considering a sale of properties.

Why are so many vineyard properties on the market in Oregon? The causes, as it turns out, are as different as the owners.

RETIREMENT AND CAREER MOVES

At nearly 45 years old, Oregon's wine industry is moving from one generation to the next. In a 2007 Silicon Valley Bank survey of Oregon, Washington, and California family-owned wineries, 51 percent of the respondents indicated that they anticipate a change of control within 10 years.

For many family farmers in Oregon (average age, 58, according to OSU Extension Service) children have decided to pursue other interests, and not continue with the family farm, leaving many properties looking for new owners.

A typical example is Brent and Mary Freeman, who planted La Dolce Vita vineyard in the hills north of Gaston in 1995, and have enjoyed the wine grower's lifestyle for 15 years. They continue to sell most of their fruit to area wineries, but also bottle and sell a private label wine

under a grower's license. The Freemans' kids are grown and off to college, and they've decided that it is time to start thinking about an exit strategy and a move to sunnier location.

Another example: Art and Donna Friesz sold their 40-acre Newberg property in July of 2009 to Ernst Loosen of Dr. Loosen wines, a renowned German winemaker. They had the good fortune of buying this land in the Chehalem Mountains AVA 35 years ago, and watching vineyards develop around them on all sides. Art and Donna are retired and ready to downsize to a simpler lifestyle. Loosen will be working with Jay Somers to develop a Pinot Noir vineyard and winery on the property.

Some sales are the result of opportunities in owners' principal careers. Greg and Anne Cost have been living a picture-perfect vineyard lifestyle right out of *Sunset Magazine* (literally, in the Nov. 2006 issue). Having developed a small vineyard property in the Eola Hills near Salem, the Costs, like the Freemans, have enjoyed providing fruit to local wine makers, as well as bottling their own private label to share with family and friends. Greg, a urologist, will be moving his practice from Salem to Portland. And so, another vineyard goes on the market.

MARKET CHALLENGES AND VALUES

Winemakers and vineyard managers offer some sobering perspectives on the difficulties presently facing the wine industry, and perhaps some insight into why some grape growers are calling it quits.

Lisa Neal, who until recently was a busy vineyard property broker, is now a grower and wine producer at Coeur de Terre Winery. According to Neal, many wineries are struggling with cash flow constraints that are the result of a badly received wine vintage (2007), and lower wine consumption in the recessionary economy. After riding high for a few years, Neal said that the industry is now seeing a shakeout of smaller winemakers who find it hard to meet the challenges of constricted cash flow. Newer winemakers and vintners are finding that selling wine without an established distribution network is a daunting task. These people may be the most likely to sell, she said.

The increase in property sales activity this year may also be a consequence of the recent difficulties local growers have had selling all their grapes. It was, "Very likely the most challenging business year wine growers have ever experienced", according to Kevin Chambers, co-owner of Oregon Vineyard Supply and Results Partners Vineyard Management Company. One reason: the volatility of fruit prices on the spot market. "Frankly, it's going to be a tough grape sales market for at least a couple years, and as such, some growers will clearly call it quits," said Chambers. "I know there is a large inventory of properties for sale. But since no significant sales have yet been completed, we don't know where the new price for established vineyard land in Oregon now lies. But if I had to guess, I think we'll end up about 20 percent below the northern Willamette Valley appraisals of 2006-2008 of \$50,000 per acre. That represents real value even in today's market."

A DYNAMIC DECADE

The last decade has seen steady expansion in Oregon's wine industry, which has nearly doubled its productive wine grape acres in the past 10 years, according to the Oregon Department of Agriculture statistics. Growers and wine makers in Southern Oregon seem to think this trend has sustainable momentum. Pat Spangler of Spangler vineyards and past president of the Southern Oregon Wine Growers Association, said that there have been a few winery sales recently, but emphasizes that they were not distressed sellers, and that in two cases the properties sold, even though they were not on the market. Spangler believes that an increase in investments in the area is an indication of industry vitality, and the area's potential for growth. He also said that Bordeaux, Rhone, and other grape varieties grown in Southern Oregon are being sold at more competitive prices, and may be well positioned in today's market.

Also upbeat was Michael Donovan, managing director of Roxy Ann Winery in Medford. His 2009 wine sales exceeded those of 2008, and he attributes this, in part, to Southern Oregon's growing reputation as a premium wine destination.

A BUYER'S PERSPECTIVE

Meanwhile, from one buyer's perspective, Oregon still looks promising. A veteran California winemaker looking to buy vineyard development land said that Oregon offers a large inventory of available land in diverse regions. Despite the rise in Oregon land values, he says, "The price per acre for quality Pinot Noir sites is 50 to 80 percent less than comparable acreage in the highly desirable coastal areas of California."

While there is little question that we are seeing an unprecedented number of vineyard properties for sale, there are widely varying views on the reasons, and the effect this may have on land prices. While some distressed property sellers can be found in any farming market, many sellers appear to be less eager than buyers might hope, and resigned to the possibility of a longer selling cycle. It looks like this bumper crop of properties may see some extended hang time, as buyers and sellers wait to see who is going to make the first move.

Peter Bouman has been brokering vineyard and winery properties for several years in Oregon's Wine Country. More info at www.oregonvineyardproperty.com