

Buying a Lifestyle Vineyard in the Napa Valley

By Kate Somple

The lure of living in a bucolic vineyard setting continues to attract successful people to relocate or build second homes in California's wine country regions.

Some are serious about growing wine grapes, some want the country-chic lifestyle, and others simply prefer landscaping that provides some income. Whatever the impetus, buyers are buying lifestyle vineyards, despite the current economy woes. The acquisition of lifestyle vineyards reached an apex around 2005. So much so that, according to agriculture value specialist Tony Correia, the value of a vineyard's home site potential has become a significant factor in the "value per acre" yardstick now commonly used in vineyard appraisals.

Prior to the lifestyle vineyard surge, a vineyard would have been valued according to price per planted or plantable acre. Now, Correia says, "We are adding home site values ranging from \$250,000 to \$1,000,000 or more to the per acre value equation, which significantly increases the bottom line price per acre overall."

Despite county mandates to increase minimum parcel size requirements for subdividing land in most winery regions, savvy vineyard developers have discovered how to effectively mine the niche of lifestyle vineyards through creative, contiguous lot line adjustments. In Napa Valley for example, the minimum parcel size for dividing lots in the coveted Ag Preserve zoning is 40 acres, and in the coveted hillside areas zoned AW (Agricultural Watershed) the minimum lot size is now 160 acres, making small vineyard ranchettes nearly impossible to over-develop, thereby conserving the agriculture nature of the valley. Necessity (i.e. demand) being the mother of invention, further fueled by rising costs of vineyard farming and real estate values, the lifestyle vineyard is an economic win/win for both buyer and seller/grower.

As an example, the return on a vineyard investment can be quite attractive if you are able to purchase a substantial geography of vines made up of several legal parcels you are on your way to a smart real estate development project. First lot lines are re-configured to maximize the number of well-sited home sites. These newly configured lots (usually surrounded by producing vines) are then sold as a vineyard lifestyle, generating up to several million dollars. In addition to the home site purchase the new landowner and grower/developer benefit from the economy of scale farming cost savings by managing all the sub-divided vineyards as one. Since most buyers of lifestyle vineyards want to enjoy the setting and have little involvement with the actual business of the vineyard it is a win/win.

There are various ways a lifestyle vineyard relationship is negotiated between buyer and developer, and much depends on the long-term intent of both parties. The developer/vineyard management company will often negotiate the grape contracts with the wineries and share the profit with each homeowner according to their vineyard's contribution.

What makes lifestyle vineyards different from buying a piece of vacant land and planting a small vineyard is that typically the vineyard has been planted and is already producing cash flow. Also there is an advantage of situating home sites in advance with sensitivities to views and privacy issues, thereby reducing the risk of someone buying the lot next to you and building their pool near your master bedroom window. When you buy into a vineyard lifestyle complex you know in advance what development will take place around you and often you will have quality control assurances.

While this is often a win/win arrangement, the lifestyle vineyards have their pitfalls and it isn't always a clear cut road to building your dream home. There are many aspects of negotiating this type of real estate purchase: access roads that are often not paved and are better suited for farming equipment; shared wells and the water needs of vineyards and residences; set-backs of the residences to allow space for farming equipment; who pays vineyard farming costs and how the revenues are split; shared risks if a crop fails; grape contracts, and architectural approval committees to name a few.

Buyers need to consider key issues such as who pays for watering the vineyards, whether or not to take advantage of economy-of-scale vineyard farming costs or to go it alone as an independent farmer and take a stab at farming and selling the grapes yourself. Keep in mind that if you choose to go it alone typical farming costs in Napa Valley for example are around \$4,000 to \$5,000 per acre per year, not including harvest costs. The price-per-ton for Napa Valley grapes range from \$2,000 to \$5,000. Unless you are compelled to farm grapes yourself, when you do the math, it makes a lot of sense to pool your expenses and potential for income with neighboring vineyards under one banner and just enjoy the scenery!

The merging of farming and residential lifestyles is not without its challenges. Seasonal noises from tractor and field labor, occasional spraying, wind machines (if utilized) in the wee hours of the frosty mornings of Spring, the presence of unsightly farming equipment and the shared risk that the crop may be destroyed by mother nature or other unforeseen causes.

Our firm, LifeStyle Properties, is a specialist representing buyers of this unique real estate niche. From our perspective we observe these lifestyle vineyard offerings getting snapped up quickly for aggressive prices. We have walked the vineyards with buyers and their architects and we see their faces light up when they stand on a knoll surrounded by linear rows of vines and experience the connection with the land while they tromp the dirt. Despite the slugging real estate economy, the fact that subdivision restrictions only getting tighter in the county as time goes on, the supply side of these private vineyard complexes will become more limited. Once these coveted settings are developed with selective, stunning designer homes the demand level will increase even greater and their real estate values will likely receive more than the lion's share of equity growth.

For more information on the availability of lifestyle vineyards around the state, contact Katie Somple of LifeStyle Properties (707) 968-9100.