

INVEST IN VINEYARD LAND

By Josh Moffitt

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Don't you wish you had bought some land in Napa Valley twenty years ago? The prices have gone up 400%!!! In all actuality, you would have been sitting pretty had you bought ANY land twenty years ago. As a general rule, land investment is most beneficial when viewed as a long term investment. Although we are all familiar with the skyrocketing prices in 2004-2005, this was a market anomaly as is evidenced by the tumble that prices have taken during the past few years. And now that the market has deflated, a lot of investors are on the sidelines looking carefully for a safe place to invest their hard earned money, a place that offers good leverage and has strong upside potential. Let me tell you about such a place . . .



Although the market for real estate in general has slowed down quite a bit, vineyard land has stayed in demand and prices have held firm. Why is that? Good old "supply and demand". Land is a fixed commodity . . . there is no new land being made. Simply put, as land is developed there is less available and therefore becomes more valuable. Now, take that to the next level. There is a lot less land that qualifies as premium vineyard land due to the many requirements vines need to produce good wine grapes (we'll get into more of that later). On top of that, more people are drinking wine than ever in the United States so the demand is rising, and even in our current slumping economy, the Arizona Republic this week stated that consumers are still purchasing "sin" commodities – such as wine, beer, cigarettes and chocolate. This limited supply and increasing demand produces the perfect equation for rising prices. Investing in Arizona land in general makes good sense for a long term investment. Here's why. Within Arizona there is a lot of land, 114,006 square miles to be exact. Forty two percent is owned by the federal government (National Parks, National Forests, BLM, Military, etc.), 28% is owned by Native Americans (reservation land), 13% is owned by the state (State Trust Land) which leaves only 17% of the land in the ENTIRE state of Arizona that can be privately owned. For comparison, New Mexico is roughly the same size as Arizona, but has over 50% privately owned land and about a fifth of the population. Keep in mind, too, that Arizona is slated to double its population over the next 25 years.

Now, let's head back to Napa for a second. Napa was farm country before Robert Mondavi and the likes of Inglenook, Beaulieu, Beringer and Louis

Martini, turned it into the thriving wine Mecca it is today. The wine industry has boomed and is now multi-billion dollar industry. Although California wines are arguably the most popular wines produced in the United States, the industry is moving its borders. Now you will find Oregon and Washington listed on most wine lists and the California wines are not just produced in Napa. Why is this? Costs of land and limited land resources have created a situation where vineyard owners and winemakers cannot afford to buy land in California and have decided to experiment in other areas. Vintners are now realizing that the high-desert temperate climate of Arizona is also prime for growing grapes . . . and it's still close to California.

As you've read in this magazine, there are three main centers of activity for new vineyards in Arizona, areas designated as prime locations to fulfill the necessary conditions required for growing superior wine grapes. Sonoita, the Verde Valley and Willcox.

Sonoita is the only official AVA in Arizona. This was the first area to have commercial wineries and vineyards in the state and offers one of the best wine tour routes. The area is home to rolling hills, Red Sandy Loam soils and it's only about an hour from Tucson. Land prices here run about \$15,000 to \$20,000.

Verde Valley, in Northern Arizona. Although there are vineyards throughout the area, there are a group of wineries clustered in Cornville, (also known as Page Springs). It is a beautiful area that is experiencing a lot of growth and an average cost per acre would be about \$100,000 - \$150,000.

Willcox, or more specifically the Sulphur Springs Valley, is the area that I have focused my investments. The price per acre is so low that your downside risk is limited and your upside potential is unlimited. When famous winemaker Dick Erath (Erath Vineyards in Oregon) purchased 200 acres there it really put Willcox on the radar screen in the viticulture community. At \$5,000 to \$9,000 per acre, this area provides the most leverage.

Now, let me explain a bit about why vineyard land is at a premium. If you've been around Arizona at all, you know that the variety of terrain is immense (mountains, desert, high desert, etc.). To successfully produce grapes there are a variety of factors to consider. Does the area have enough water and legal access to that water? Do the soils have the right components and Ph balance? Is there a frost risk? Is there a propensity for problems with hungry deer, birds or bugs? Is the soil stable or are there fissures or other soil issues? Does it have legal access? These are all important to determining if a piece of land is suitable for growing wine grapes. And as you would guess, the supply of land that is ideal in all of these criteria and more is very limited. It's always best to consult an expert when you're getting ready to invest in anything. By becoming an expert in Willcox, I have become an asset for investors who want to find a great long term investment or for wineries looking to expand their operations.

Of course, if you are ready to retire and grow grapes right now you could purchase an existing vineyard. However, most of my clients aren't in a position to do that right away. Some are buying land now to produce wine later in life. Others don't even drink wine but see the potential of a long term investment. Whatever your reasons are . . . just remember the common sense rule of supply-and-demand and see if this evidence resonates with you.