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New wineries sprout up despite tough times

The California wine industry is weathering a much-publicized cyclical trough, but Gil Nickel and his partners are partying like it's 1999.

Nickel, an Oklahoma nurseryman who made his millions selling median-strip oleanders and other plants, is plowing more than \$17 million into his third Napa winery, Nickel & Nickel.

The farmstead-chic spread adjacent to Opus One, complete with a 1770s-era barn imported from New Hampshire and a 30,000-square-foot cellar, opened last Friday with a soiree for 1,000 guests.

Carol

Emert

Uncorked

Kathryn and Craig Hall are equally undeterred by tough times. The Dallas power couple has budgeted more than \$100 million to buy vineyards and build winemaking facilities for three brands.

A modest Hall tasting room opens next month on Highway 29 in the former Edgewood facility a few miles north of Nickel & Nickel Nickel, with fancier digs to come.

Erik, Gil and Jeremy Nickel celebrate the opening of their third winery, Nickel & Nickel.

“The fact that times are difficult now is an advantage to a new winery” because prices for both grapes and vineyards are low, says Craig Hall, a financier who so far has spent \$34 million -- all in cash -- including the recent \$13 million acquisition of Edgewood. Wine surplus or no, economic sluggishness or no, California's high-end coastal wine regions are adding new wineries at a surprising pace -- fueled by both the very rich and the very passionate.

New-winery applications are steady in Sonoma County and have increased over the last two years in Paso Robles. Napa County expects to approve 25 new wineries this year, with a capacity of nearly 500,000 gallons.

#### STEADY EXPANSION RATE

That doesn't include expansion by existing wineries, which county officials say is more common than building from scratch.

This activity means more choice for consumers, but also a more confusing array of wines from which to choose. For premium vintners, it means stiffer competition at a time when many are struggling to sell their wine.

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In addition to the weak economy, wineries are battling a 1930s-era distribution system in the United States that can barely handle production at today's levels, as well as intense competition from new brands -- a problem that is worsening daily.

Exporting doesn't provide much relief as few U.S. wineries have ventured abroad, leaving the international market largely undeveloped.

“There's a real question how successful (the new wineries) are going to be, “ says Sheila Griffie, executive director of the Paso Robles Vintners and Growers Association.

“The good news is they've got quality because they're locating in the right regions, so it's really going to be about brand-building,” says Griffie. “Whether there's a market is the unanswered question, and only time will tell.”

Wine consultant Vic Motto, a partner in St. Helena's MKF Group, sees plenty of room for growth. Americans are developing a taste for fine wine and despite last year's domestic sales increase of just 2 percent, bottles selling for \$15 or more jumped 7 percent.

"Virtually all of the new wineries are interested in the upper end," says Motto. "Although the economy has slowed a bit and the industry's rate of growth has slowed a bit, they are both growing, not shrinking."

#### SMALL VINTERS STARTING UP, TOO

Not all of the wineries on the drawing board are big and richly funded.

The majority in Napa these days are veteran grape growers who want to start making wine, or small-production vintners who currently rent crush facilities and want their own place, says Steve Lederer, deputy planning director for Napa County.

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#### VIC MOTTO

Wine consultant

Bank financing is hard to come by, so many of these wineries are backed by groups of industry friends. Most will be small boutiques that aren't open to the public.

Then there are the vintners with deeper pockets and grander plans.

The Halls, who split their time between an apartment in Paris, a Dallas penthouse and a 15,000-square-foot home in Napa, have already purchased 680 acres in Wine Country and are shopping for 500 to 1,000 more.

The couple -- he was worth \$1 million at 19, she was a U.S. ambassador under Bill Clinton -- are also readying plans to tear down the old Edgewood winery and turn it into a state-of-the-art facility. A separate winery is being built on their estate.

The end result will be three Cabernet-centric brands selling for \$25 to more than \$100.

Craig Hall says he expects the venture to make money eventually, but the main goal is to make quality wine and build a lasting brand.

"To me the winery thing is not that large," he says, noting that he and his wife, who grew up in Berkeley and whose family owned vineyards in Mendocino County, have invested nearly \$1 billion in a 4-million-square-foot Dallas office park.

Nickel & Nickel has bank financing -- and plenty of it, says Dirk Hampson, the winery's president and director of winemaking. Nickel & Nickel's sister winery, Far Niente, which was founded by Gil Nickel in 1979, broke a profit after seven years, but still owes money to the bank. (The partnership, which includes Gil's nephew Erik Nickel, also owns Dolce Winery.)

Partner Larry Maguire, who runs sales, says his job has gotten tougher in the last two years.

The first two vintages of Nickel & Nickel, released in 2000 and 2001, had more takers than it could satisfy in just the top 10 U.S. markets. Now the brand is being sold in 45 states and more salesmanship is required.

"Monday I was in Chicago, Tuesday I was in Toronto and Wednesday I was in Cleveland," Maguire says. The wine is

selling, but largely because it is able to piggy-back on Far Niente's distribution network. "I wouldn't want to be trying this without Far Niente's history," says Maguire.

Still, the partners are confident that their \$65 to \$125 line of vineyard- designated Cabernets will succeed. "I have no idea how long it will take to pay off," says Hampson. "The first thing is to be great at what we do and then find a way to make it pay."

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