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THE PRICE OF PRESTIGE

The cost of land in some of the world's most prestigious regions has now separated from the value of the grapes produced. L.M. Archer analyses the situation

PHOTO: THIERRY RYO - FOTOLIA.COM

Buying a vineyard in Burgundy is akin to buying a great work of art.

What's the price of success today in France's prestige wine regions? For Burgundy, about €33m ($40.37m) – the estimated cost per hectare for the recent purchase of 7.53 ha Monopole Grand Cru vineyard Clos de Tart by billionaire François Pinault.

This procurement ratchets up already giddy land prices realised from previous sales in the area, including the 2017 sale of 11 ha Bonneau du Martray for a reputed €200m (about €18.18m per hectare) to American magnate Stan Kroenke, and the 2014 purchase of the 8.7 ha Clos des Lambrays to luxury group LVMH for an alleged €101m.

"At this level, price has nothing to do with value or return on investment, as there is no price point per bottle to which François Pinault will be able to recoup his €280m investments in 200 years," observes fourth-generation Burgundian vigneron Bruno Corneaux.

And while Burgundy may intoxicate outside investors, property-tied succession taxes are a sword of Damocles to local family-owned domaines. What's driving this market and is it sustainable?

What drives the price

"In Burgundy, we are producing fruit first, wine second," says François Labet of Château de la Tour, co-president of Bourgogne Wine Board (BIVB). "The market gives the reality of the prices. It is the demand that creates the price." He says the prices are high because the wines are great. "We sell Richebourg, La Tâche, Corton. Burgundy sells wines made from specific climats and terroirs appreciated and understood by connoisseurs. The value of the land is what's planted between the poles and wires." Labet adds that Burgundians are "heirs of our lands, of our tradition, which is the essence of our UNESCO World Heritage inscription".

Indeed, in 2015 UNESCO recognised both Burgundy and Champagne as World Heritage sites. Labet says the difference between the two areas is that in Burgundy, owners farm their own estates. "We are directly involved in the production. Just because I am the president of the BIVB, I'm still going out to prune – it's part of the business of the land, of the way we are farming, the way we are making the wines."

Yet Champagne growers and producers also assert that the fruit, not the land, dictates the cost of their wine. A 2016 costs analysis provided by the region's wine council Comité Interprofessionnel du vin de Champagne (CIVC) shows grapes accounting for 50 percent of production costs. "We would argue that the price of wine in Champagne is related to the price of grapes even more than the price of land," says Thibaut le Mailloux, CIVC's director of communications. "The price of grapes depends on all production means, including the land price, but also the depreciation of the vineyard, the cost of manpower and so on."

In Bordeaux, Florence Forzy-Raffard, senior partner at Rustmann & Associes and a municipal councillor for the City of Bordeaux, notes two phenomena driving land prices: classified growers looking to build brands by expanding their estates, and outside wine producers, mostly French, looking for prestige purchases. "If you take the smaller appellations, prices have dropped in places such as Fronsac. Canon-Fronsac is one example of an appellation where purchases by Chinese buyers drove the prices up. But Chinese buyers have had no impact in larger appellations such as the Communales du Médoc."

Alexander Hall of Vineyard Intelligence – a vineyard acquisition advisory firm based in Bordeaux that has also brokered deals in Burgundy – confirms the trends. He agrees that purchases are being made for brand building and prestige, both by well-placed local growers as well as outside buyers. However, he adds that a growing use of investment strategies such as that provided by the Groupement Foncier Viticole (GFV) is also impacting on prices. GFV buys prestige vineyards and estates on behalf of groups of investors, then puts the management of the property in the hands of an expert vigneron. Investors receive "rent" every year, which can come in the form of bottles of wine;

such structures also have tax advantages.

"The GFV ownership structure has been around for some time, it's just that it's being used more now," says Hall. "There are companies dedicated to finding wealthy investors willing to invest via these tax-efficient structures. They are a little more active in Burgundy than elsewhere, but you find them right across France."

Some Burgundian vignerons have a different perspective upon the dynamic in their region. Bruno Corneaux, who also developed his own estate called Divio in Oregon's Willamette Valley, believes that when expensive sales, like that of Clos de Tart, hit the headlines, they "are contributing to the renown of Burgundy to the rest of the world". He says that purchase is akin to buying "a unique piece of French wine history and it is not economically driven. It is almost like an art investment, a Picasso or a Rodin. You buy it for your own pleasure." But he adds that "they will probably raise the price of the bottle, but because they can justify it by the buzz and the demand they created around the sales price, not to return investment. It is not a business model, as it applies to a handful of extremely prestigious estates, most of them monopolies."

Corneaux also points out that the French government agency Société d'Aménagement Foncier et d'Etablissement Rural (SAFER) safeguards agricultural land sales on all land, except Grand Cru, which it does list as a designation option price, but does not regulate. "This agency's role is to make sure a piece of land goes [for] the lowest price, preferentially to a local farmer," he says. "This was created to promote local development and avoid speculation." The agency has the right of pre-emption or eminent domain, and can sell a piece of land back to its preferred candidate.

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Patrimony vs. Profit

In France, the Napoleonic code demands equal inheritance by every sibling, a noble concept with unforeseen consequences. Additionally, onerous inheritance taxes have added to the burden of preserving family domaine ownership, leading to generational estate splintering and today's tessallated terroirs. According to Dossier Familial publication, in 2018 a son or daughter will pay a five percent tax on an estate of €100,000 ($123,340); the percentage of taxation increases with the value of the estate, reaching a whopping 45 percent should the estate comprise €1.8m or more.

Even if the estate is donated to children, the rates apply, except if the owner is still alive, in which case the owner receives a €31,000 deduction. During escrow, there are transaction fees of between one percent and five percent, which vary according to the inherited or donated amounts.

Many family domaine owners, such as Thiébault Huber of Domaine Huber-Verdereau in Volnay, fret about unsustainable succession taxes caused by inflated land values. Huber, a biodynamic producer with family roots dating back to the last century, features prominently in the newly released documentary "Three Days of Glory" by Oregon importer Scott Wright and filmmaker David Baker. "For sure, we can only look to this incredible land market for Grand Cru and Premier Cru," says Huber, adding that he is scared for the future. "There are for me two main reasons to be scared by those investors without any money limit." He wonders how it will be possible for small owners to pass on valuable Grand Cru and Premier Cru vineyards, when the inheritance taxes are rising due to "a few crazy transactions".

Huber believes, however, that Burgundy's wines are expensive for other reasons, including recent difficult vintages and low production in general. "Every wine lover, from anywhere in the world, would like to taste and buy, one day, a Burgundy wine." He adds that he's certain Burgundy will never become like Bordeaux, not least because the winegrowers have to share the collective AOC. "Our wines are becoming luxury products, like an Hermés handbag or a Patek [Philippe watch]."

Corneaux says that inheritance taxes have always been a problem. "I have heard about that since I was born. It is not new, but it may be more and more problematic. Last year's French movie 'Back to Burgundy' talks about that," he says. "But SAFER is here to help maintain reasonable prices that keep vineyards within its community. These crazy prices apply only to Grand Crus that are not regulated." He believes that prices for "particularly highly regarded Burgundy vineyards will not go down as long as there is demand for it, more rich buyers on the market and large demand by rich consumers for these rare bottles. But we are talking of Grand Cru here, extremely rare pieces of land, not regulated by the SAFER."

Others, like Louis-Michel Liger-Belair of Domaine du Comte Liger-Belair, consider such transactions "excellent for business. It gives those who are thinking about selling the 'permission' to do so. It also provides the ability to sell the land at a high price and make a higher return than letting it sit there."

Luxury in a bottle

But what's driving this grands vins mania? "Why have the prices of the top wines in Bordeaux and Burgundy wines increased so significantly in recent years? It's because of the demand for these wines, it's not about who is buying properties in those regions," says Alexander Hall. "It's because there has been huge wealth creation during this period, particularly in developing economies, which has driven demand for luxury products, such as fine wine. The top Bordeaux and Burgundy estates have become luxury brands."

As he says, with most luxury goods, production can be increased to meet demand. "If LVMH wants to turn out more Louis Vuitton handbags, it can do it, but there is a finite amount of Domaine de la Romanée-Conti or Château Latour that can be produced in any given year. With this sort of increase in demand and without a corresponding increase in supply prices are only going to go one way." It isn't an increase in land prices that's driving wine prices, he says, rather the increase in wine prices that's raising land prices.

"There's something about these assets; the emotional side of it, the extraordinary rarity, the uniqueness," he says. "Of course, houses or yachts have a certain uniqueness, but you can always build another one. There will never be another Château Margaux."