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Valuing Vineyards

Perhaps one of the first questions regarding the value of wine was posed by the ancient Persian poet, mathematician and astronomer, Omar Khayyám (1048–1123), in the 71st quatrain of his famous “Rubaiyat.”

“...I often wonder what the vintners buy
One half so precious as the goods they sell.”

Wine is and has been the ubiquitous libation of choice for many generations of many cultures. And it has often been suggested the greatest advances in civilization and culture have come from those societies that produced and enjoyed this profound elixir. Today, wine is produced by most countries in the world and the global marketplace allows almost anyone, anywhere, the luxury of sharing in this bottled poetry.

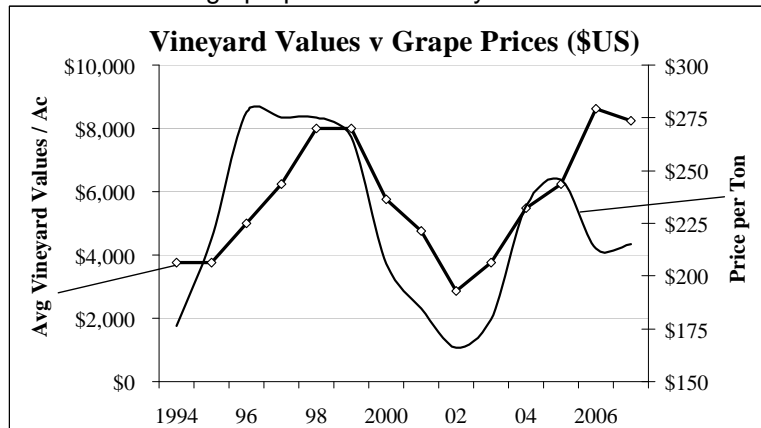
Valuation of wine, and the related assets that create it, can be fascinating and challenging. A typical winery property may include the actual physical facility, most probably located in a recognized “appellation,” and associated vineyards, which may be located on the winery estate or in separate locations, perhaps even in different appellations. The facility can include the land, buildings and various components of highly specialized machinery and equipment used to crush the grapes, ferment the wine and store and eventually bottle the finished wine. A facility may hold a substantial inventory of bulk wine stored in tanks and barrels, and bottled wine stored as cased goods. Older wineries may hold large libraries of past vintages.

Thus, such a valuation assignment might require real property experts to value the land, vineyards and winery buildings, equipment experts to value the machinery and equipment, and inventory experts to value the bulk and bottled wines, while a completely different professional might be called for to value the historical wines in library. Also, wineries are often valued as business enterprises, utilizing standard Business Valuation methodologies and techniques, and extreme care must be taken by valuers from the different disciplines to ensure these components are properly isolated and that real property valuations are not allowed to bleed over into the BV area, and value the business, not the property, and vice versa.

How, then, do we establish the value of the real estate and ancillary fixtures that provide the home for the winemaking process? Contemporary approaches to the problem of the valuation of vineyards and wineries are often combinations of traditional real estate and business valuation techniques.

The one constant is the simple relationship between wine, grape and vineyard prices. Wine prices drive grape prices. Grape prices drive vineyard prices. This last premise is easily illustrated by a chart of vineyard values versus grape prices over the years 1994 to 2007 in California’s San Joaquin Valley.

As demand for grapes increased in the mid-’90s, vineyard values followed. And as grape prices fell after 2000, vineyard values followed again. This chart also illustrates the cyclical nature of the wine industry, with recurring cycles of supply and demand imbalances. The obvious aberration in vineyard values seen in 2005 and 2006 reflects the impact of the U.S. real estate bubble, with demand for rural vineyard estates continuing to inflate values even as grape prices began another downturn. This recurring Sisyphean cycle of “boom and bust” has been chronicled for many decades, as have so many real estate cycles.



A primary problem in the valuation of these unique properties is the unique, highly specialized, physical characteristics of the facilities themselves, often compounded by their location, with reference to the production components of the vineyards. These characteristics tend to make these facilities little suited for alternative uses, as was amply demonstrated during the years of Prohibition. An additional element confounding the valuer's dilemma is the secretive nature of this industry, whose players tend to hold their cards close to the vest. In fact, many industry brokers and consultants, including valuers, are often asked to sign confidentiality agreements before proceeding with their respective assignments. Valuation of these facilities, then, becomes a classic application of Valuation of a Special Use Property with a Limited Market.

Location is, always, a primary determinant of value for any real estate, however this concept becomes much more critical when addressing the value of vineyards. The essence of vineyard location is captured in the enigmatic term "terroir," which incorporates various aspects of location, soil characteristics, microclimate and whatever else it is that creates a unique, identifiable character in wine produced from that vineyard or specific area.

As growers, winemakers, consumers and governments became more conscious of the complex relationships of terroir, and the characteristics that define it (location, climate, soil, etc.) the concept of "Appellation" evolved. Controlled Appellations originated in France, when specific locations were recognized as unique producers of certain products, such as wine, cheese, butter, etc. **Appellation d'origine controlee (AOC**, "controlled term of origin") applies to certain French Geographical Indications such as Champagne and Roquefort. French wine AOCs can define not only a specific location but also the varieties of grapes to be grown, vinification techniques, and the style of wine to be produced. The general AOC designation can also be broken down into a complex hierarchy of designations into the very smallest, tightly defined, areas.

In Italy, **Denominazione di origine controllata (DOC)** is an assurance of quality for food products and especially wines, roughly modeled after the French AOC. Three levels of labels are defined: **DOC** – **D**enominazione di **O**rigine **C**ontrollata, **DOCG** – **D**enominazione di **O**rigine **C**ontrollata e **G**arantita, and **DO** – **D**enominazione di **O**rigine.

European "Appellations" are now protected by the EU by **Protected Designation of Origin (PDO)** regulations, which are vigorously defended in international trade, today. In the United States, specified production areas are defined as American Viticultural Areas (AVA), which are also protected in national and international trade.

Throughout the world, appellations are recognized by wine buyers and consumers, and these specifically defined areas contribute greatly to the value of vineyards, and wineries, located within their confines. A vineyard in Vosne-Romanée would likely be considered highly superior to a vineyard in Languedoc or Chianti or Paso Robles, while a vineyard in Napa Valley's Rutherford AVA would likely command much higher prices than a similar vineyard in Australia's Barossa Valley or Argentina's Valle de Uco. The study of the relative values of vineyards in the various recognized wine appellations is an art in itself. This valuer has devoted many years studying the many regions throughout the world, devoting endless hours inspecting land and vineyards in such areas and, of course, interminable days, weeks, and months devoted to in-depth market research, sampling the wines produced in each specific region. An interesting corollary of premium wine production is that the best wines tend to be "grown" in areas that are also attractive for human habitation, often becoming tourist destinations, and adding another element to the valuation matrix.

Valuation of vineyards can be a challenging endeavor, given the complexity of these creatures. Market data may be readily available in some specific markets where vineyards are relatively homogeneous and valuations may be relatively simple, by direct comparison of comparable vineyards acquired in recent transactions. However, in many other markets, few transactions are seen and information regarding those transactions may be extremely difficult to obtain, and vineyards may vary widely in characteristics and value within very localized markets. Seminars and courses on vineyard valuation are available in some markets. I have published an article on Locational Considerations in the Valuation of Permanent Plantings in the June 2000 issue of the Journal of the ASFMRA, and a link to this article is available below.

Winery facilities can be even more challenging. When we look toward wineries, no truly accurate methodology appears to exist for the valuation of these unique winery facilities. Interviews with prominent industry participants, brokers, consultants, lenders and valuers active in this relatively closed market reveal the basic industry benchmarks are units of capacity based on sales price per case produced or permitted, price per gallon of cooperage, price per tons of crush, or price per square foot of main building improvements. However, given the unique characteristics of these facilities and the broad spectrum of design, construction and productive capacity, even these primary benchmarks are merely flashlights in the darkness. In light of this broad physical diversity and the intrinsic secrecy of the industry the appraisal problem becomes a significant undertaking.

The promise of the “maturing palate” theory does appear to be coming true as consumers, especially the massive cadres of aging baby-boomers and younger “millennials, X-Gens,” etc., do seem to be continuing to work their way up the quality ladder, a trend that should result in increasing demand for higher quality wines. Recent industry surveys indicate participants consider this growth will continue, albeit with consumption now clearly “buying down” as consumers globally seek “less expensive” product as the financial crisis continues. Today, the wine market is strongest in the lower priced segments, although exactly the opposite was true only a few years ago.

The wine industry has always tended to exhibit repetitive cycles, constantly moving through changes in supply and demand, preferred varieties, wine styles, countries of origin, etc. While the giants of The Old World – France, Italy and Spain – continue to produce the majority of the world’s wine, The New World producers continue to mature and export their growing production into waiting world markets. Impacts of the spreading financial crisis may create some interesting nuances to this market, as countries may move to protect their local industries via politically driven trade policies.

Consolidation of wine businesses into the larger global corporations continues throughout world markets. The trend of consolidation is expected to continue, with the major market players absorbing smaller producers and seeking synergistic partners in all markets. The adoption of International Financial Accounting Standards and International Valuation Standards will create enormous, and ongoing, opportunities for valuation of these complex, but fascinating, properties and businesses for those valuation professionals equipped to meet those challenges.

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Sources:

Annual Land Values Survey, California Chapter of ASFMRA
www.calasfmra.com/trends.php

[Locational Consideration in the Valuation of Permanent Plantings \[June 01, 2000\]](http://www.asfmra.org/publications/index.cfm?fuseaction=journallanding&year=2000)
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