

An Investment Worth Toasting

WHILE IT'S NO SECRET that the global auction market for fine wine has seen explosive growth in the past 15 years, the escalation in price demonstrated by repeat sales of the same vintage might surprise even the most bullish investors. Those who simply snapped up a case with the intention of quaffing a great vintage might think about putting their bottles back on the block unopened. Consider, for instance, a five-bottle lot of 1989 Château Lynch-Bages, a French Bordeaux that sold in January 1996 at the Chicago Wine Company for \$64, a per-bottle price of \$12.75. In June 2012 a case of the same label and vintage sold at Sotheby's London for \$3,582, a per-bottle price of \$298.50 and a stunning 22 percent annual nominal rate of return. Like other fast-growing luxury sectors in recent years, the market has been bolstered by an influx of wealthy

Chinese buyers. Their importance to the market can be seen in the fact that the most significant wine auctions are now divided between New York and Hong Kong, though important sales are also still held in London and Paris.

Our analysis of wine resale prices employs a data set of more than 250,000 resales that is unmatched in size; it contains information about all public auction results at nine international houses from 1996 to 2012. We constructed a repeat-sale index based on comparisons of at least two prices realized for each wine of a specific vintage sold at any house in the period studied. Only wines priced above \$50 for a standard 750-ml size—are included. Further, the oldest vintage considered here is 1961; anything earlier is classified as antique.

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TOP WINES BY NUMBER OF SALES

French wines, specifically Bordeaux, dominate the auction market, so it is little surprise they take the top 12 places when ranked by number of resales. The Bordeaux 1855 wine classification was a result of Napoleon III's demand that wines be officially graded by quality. Representing the most desirable category, Médoc 1 is a portfolio of wineries classified as premier crus (or "first growths") under either the 1855 or the Saint-Emilion classification. Médoc 2 through Médoc 5 designate the remaining wines from those classifications, such as deuxièmes crus and cinquièmes crus, and represent the less desirable wines.

	CHATEAU, REGION	CLASSIFICATION	NUMBER OF SALES	PRICE PER BOTTLE
1	Lafite Rothschild, Pauillac	Premier cru	19,457	\$1,128
2	Mouton Rothschild, Pauillac	Premier cru	18,296	\$422
3	Latour, Pauillac	Premier cru	15,025	\$581
4	Margaux, Margaux	Premier cru	12,913	\$523
5	Haut-Brion, Graves	Premier cru	11,553	\$446
6	Cheval Blanc, Saint-Emilion	Premier cru	8,084	\$643
7	Pichon Lalande, Pauillac	Deuxième cru	7,336	\$152
8	Lynch-Bages, Pauillac	Cinquième cru	5,965	\$142
9	Léoville-Las Cases, Saint-Julien	Deuxième cru	4,944	\$198
10	Cos d'Estournel, Saint-Estèphe	Deuxième cru	4,925	\$141
11	Pétrus, Pomerol	Not classified	4,860	\$1,458
12	Ducru-Beaucaillou, Saint-Julien	Deuxième cru	4,239	\$133

A selection of top 1982 Bordeaux wines from Chicago auctioneer Hart Davis Hart.



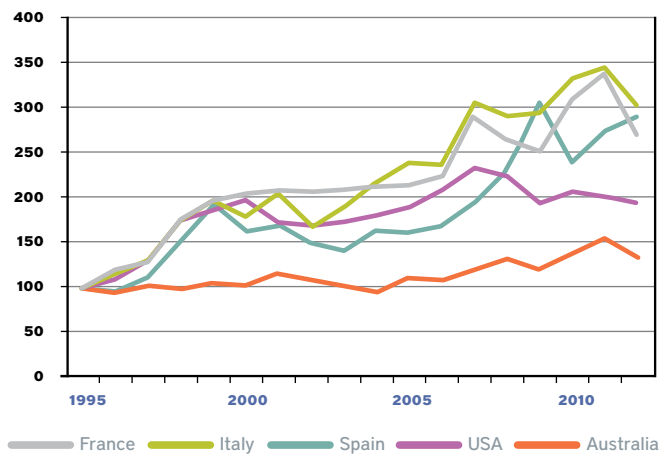
VOLUME OF RESALES AND AVERAGE PRICE PER BOTTLE BY COUNTRY

Our study consists of 257,555 bottles sold in lots that could be paired as resales. French wines' domination of the market is evident in their top ranking by volume, accounting for 190,752 bottles, of which 176,196 originated in the Bordeaux region and just 14,556 in Burgundy. The average price per bottle of Burgundy, however, lands at \$877, compared with \$762 for a first growth from the Bordeaux region. Bordeaux of lesser quality bottles averages only \$123 per bottle. In fact, average per-bottle prices for wines from the U.S., Italy, Spain, and Australia all outrank the average of Médoc 2-5.



REPEAT SALES INDICES BY COUNTRY

We constructed national indices showing the performance of wines from Australia, France, Italy, Spain, and the United States. All countries but Australia showed growth in the mid to late 1990s and then languished until the middle of the last decade. Since 2006 all national fine wine indices including Australia have increased significantly, though performance has been variable, with U.S. wines finding their peak value in 2007, Spain topping out in 2009, and France and Italy reaching their highest values in 2011. Although France dominates by volume, our indices show the greatest appreciation in wines from Italy. However, if the French index is recalibrated without the lower-quality Médoc 2-5 wines, its value is unsurpassed.



REPEAT SALES INDICES OF FRENCH WINES

The Bordeaux and Burgundy regions of France both produce high-quality wine, though there are substantial differences. Many Bordeaux wines worthy of aging are composed of cabernet sauvignon, while great Burgundy reds use pinot noir. Burgundy wine producers often deliver much smaller quantities than the big Bordeaux châteaux. For instance, the famous La Tâche from Domaine de la Romanée-Conti produces only 1,870 cases annually on average, while at Château Margaux, annual production can exceed 12,500 cases, and bottles appear far more frequently at auction. Notably, wines from the Burgundy area provide a higher return than do Bordeaux wines, so in this case scarcity indeed appears to be important for returns.

