

LIVING THE DREAM

GLOBAL VINEYARD INDEX
2014

KEY FINDINGS

Index: The price of a lifestyle vineyard increased by 4.5% on average in the year to June 2014, down from 6.8% last year

Top performer: Sonoma County in the US recorded the strongest increase in vineyard prices year-on-year, rising by 17.9%

Buyers: Asian buyers are looking beyond Bordeaux to the US, Italy, New Zealand and Australia

France and Italy are still top of buyers' wish lists, some regions such as Piedmont have seen prices decline creating potential buying opportunities

Investment: Vine (up by 4.5%) outperformed wine (up by 3%) in the year to June but both were eclipsed by classic cars

“Sonoma County in the US recorded the strongest price growth with vineyard values rising by 17.9% in the 12 months to June.”

NEW WORLD ON TOP

Our Global Vineyard Index records another year of solid growth in vineyard values, with wine-making regions in the US and New Zealand leading the rankings.

Vineyards are increasingly seen by the world's wealthy as a means of broadening their property portfolio whilst providing an opportunity to learn and explore a new industry or passion. But aside from wine's profitability what return can a vineyard provide?

Knight Frank's [Global Vineyard Index](#) tracks the change in the price of 'lifestyle' or 'boutique' vineyards, **our definition excludes small "hobby" producers and larger commercial enterprises.**

Vineyards falling within our definition usually comprise 2-15 hectares of vines

THE KNIGHT FRANK GLOBAL VINEYARD INDEX Q2 2014

Wine region	Typical property requirement	Grape Varieties*	Lifestyle vineyard % annual price change
SONOMA COUNTY, US	Californian Ranch style property with swimming pool	Pinot Noir, Chardonnay, Cabernet Sauvignon, Zinfandel, Syrah, Viognier	17.9%
HAWKES BAY, NEW ZEALAND	Built in last 20 years, 3-5 bedrooms, good quality kitchen, outdoor living area	Sauvignon Blanc, Chardonnay, Pinot Gris, Merlot, Shiraz	17.6%
BAROSSA, AUSTRALIA	Top quality modern residence with guest accommodation	Shiraz, Cabernet Sauvignon	14.0%
MARLBOROUGH, NEW ZEALAND	A 4-5 bedroom residence in good condition with accommodation for vineyard staff/managers	Sauvignon Blanc, Pinot Noir	13.3%
CHIANTI, ITALY	Rural property, 4+ bedrooms, with strong architecture, with a cellar and a large swimming pool	Chianti Classico, Sangiovese, Trebbiano	12.0%
NAPA VALLEY, US	Modernised "farmhouse" with additional land (either for horses or additional vines)	Cabernet Sauvignon, Malbec, Merlot, Cabernet Franc, Zinfandel, Syrah	11.1%
THE RHÔNE VALLEY, FRANCE	Classic 18th century chateau with a swimming pool and outbuildings	Grenache, Syrah, Marsanne, Roussane and Viognier	5.6%
BRUNELLO, ITALY	Period property with 4+ bedrooms, good gardens with swimming pool and potential for a B&B	Sangiovese	4.0%
BORDEAUX, FRANCE	Traditional stone house/chateau-style, gardens, proximity to city and transport links	Merlot, Cabernet Sauvignon, Cabernet Franc, Sauvignon Blanc, Semillon	0.0%
BURGUNDY, FRANCE	A 4+ bedroom property with secondary accommodation for visitors/staff	Pinot Noir, Chardonnay, Gamay and Aligoté	0.0%
MENDOZA, ARGENTINA	A modernised colonial-style property. If no property on site a bespoke luxury home is usually built	Malbec, Cabernet Sauvignon	0.0%
PIEDMONT, ITALY	Renovated farmhouse with privacy and at least 3-4 beds	Metodo Classico	-8.0%
STELLENBOSCH, SOUTH AFRICA	Well positioned properties with excellent views. Style of house is not as important as position and views	Cabernet Sauvignon, Shiraz, Merlot, Sauvignon Blanc, Chenin Blanc, Chardonnay	-10.0%
COLCHAGUA VALLEY, CHILE	Self-build property of bespoke design often of colonial style	Carmenere, Cabernet Sauvignon, Merlot, Malbec, Syrah	-14.0%

*most common, not an exhaustive list

Source: See back page

with a detached family residence on the estate and, on occasion, outbuildings including a winery or bottling plant. These 'lifestyle' vineyards need to do more than just 'wash their face' instead they must produce an annual return, not simply a few bottles for family and friends.

In Knight Frank's experience lifestyle vineyards are acquired by a mix of buyers, some are purchased as an early retirement project by wealthy individuals in their late forties or early fifties, keen to embrace a 'hands-on' approach and with the capital to fund it. Others are purchased as holiday homes which are visited three or more times each year, with a manager employed to oversee the day-to-day running of the estate, including both production and sales.

Now in its third year, Knight Frank's Global Vineyard Index covers 14 key wine-making regions worldwide, covering both the world's most established 'old world' markets such as Bordeaux and Chianti as well as newer regions such as Colchagua Valley in Chile and Mendoza in Argentina.

Index results

On average the value of vineyards covered by the Knight Frank Global Vineyard Index rose by 4.5% in the 12 months to June 2014, slipping slightly from the 6.3% rate of growth recorded a year earlier. The slight dip in performance can be explained by the lower rates of growth amongst the top performing regions which in 2013 were in excess of 25%.

Despite the slower rate of growth, the proportion of wine regions that recorded positive price growth increased from 60% in 2013 to 79% in 2014.

The global picture hides some notable standout performances, particularly amongst wine-making regions in 'new world' locations such as the US, New Zealand and Argentina. The average price of a lifestyle vineyard in the new world rose by 6.2% year-on-year compared to only 2.3% in the established markets of the old world (figure 1).

Sonoma County in the US, often overshadowed by neighbouring Napa Valley, recorded the strongest appreciation with vineyard values rising by 17.9% in the 12 months to June. However, it is worth noting that prices in Sonoma County's Russian River Valley remain 50%-65% below those in Napa Valley's key markets of Rutherford and Howell Mountain.

'Down under' on top

Alongside Sonoma County, the index's antipodean markets performed strongly with Hawkes Bay, Marlborough and Barossa Valley recording price growth of 17.6%, 14% and 13.3% respectively over the 12-month period.

The economies of both New Zealand and Australia are going through a buoyant phase with GDP growth estimated to reach 3.5% and 2.6% respectively this year according to the OECD. Interest from international buyers is also strengthening, in particular from China, the US and France, and global demand for Sauvignon Blanc and Pinot Noir is swelling.

Back in Europe, vineyard prices in Chianti increased the most, by 12% in the year to June, followed by The Rhône Valley which saw prices accelerate by 5.6% over the same period. Both markets tick many boxes on buyers' wishlists in terms of views, landscape and property type (modernised farmhouses that retain their architectural value) and crucially both regions are easily accessible.

France's most favoured wine-making regions, Bordeaux and Burgundy, saw prices hold firm year-on-year. Although demand varies significantly from one AOP in France to another, the dominance of large commercial setups limits the opportunities for lifestyle vineyard owners in both these regions, with some looking



instead to Provence, Languedoc and The Rhône Valley where there is greater choice and they are within easy reach of the Cote d'Azur.

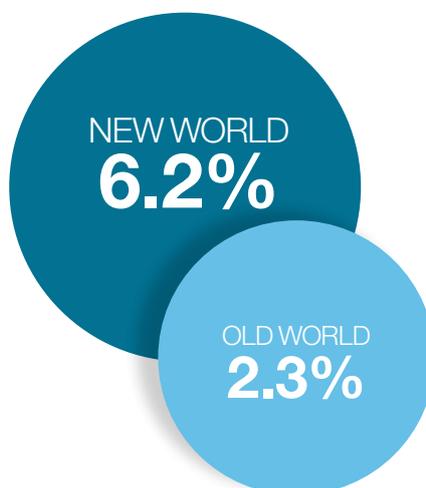
The weakest-performing markets were Piedmont in Italy, Stellenbosch in South Africa and Colchagua in Chile. Here, price growth fell into negative territory, declining by 8%, 10% and 14% respectively on an annual basis. Local agents report that global economic sentiment has had a bearing on buyer confidence and the availability of finance is tight.

The price falls in the Western Cape are attributable to strong harvests and an oversupply of grapes. This has meant sales prices have failed to stay ahead of input costs making it a less profitable venture.

In Chile, the economy is slowing but capital is still flowing into agricultural and lifestyle investments. We expect demand to strengthen in 2015 with more buyers interested in fractional ownership of managed vineyards.

In Italy, there is a clear demarcation between the best and the rest. Although vineyard prices in Piedmont have slipped, the area of Barolo (within Piedmont) is experiencing real growth. Demand is focussed on those areas where there is a quality product with a strong reputation. Other areas in Italy which outperform their wider markets include Brunello and Prosecco.

FIGURE 1
Price change by world region
12 months to June 2014



Source: Knight Frank Residential Research

GLOBAL TRENDS

The index results give us an insight into the latest price performance of lifestyle vineyards but how is wine production and consumption faring at a global level?

The Organisation of Vine and Wine estimates that the world's population consumed around 239 million hectolitres of wine in 2013 but produced over 279 million hectolitres (figure 2). The margin narrowed in 2012 when the low harvest in the northern hemisphere (particularly in Italy and Spain) led to a rise in prices of €2.62 per litre.

Demand

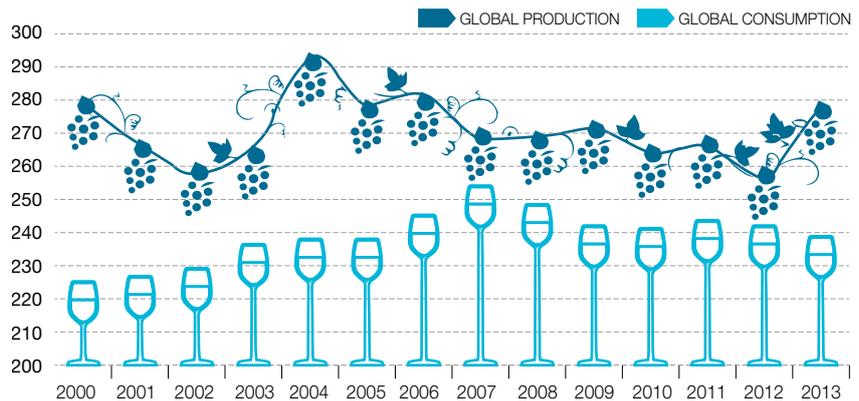
Global consumption has remained largely stable since 2009 although there are fluctuations at a country and regional level. China and Europe are consuming less wine (down by 3.8% and 2.4% respectively between 2012 and 2013) but this is being offset by countries such as Argentina, the US and Brazil where consumption is on the rise.

So, demand looks relatively steady providing vineyard owners with a market for their end product but what about measuring the demand for the vineyards themselves?

Wealth forecasts estimate there will be 47,400 more ultra high net worth individuals (UHNWIs) in the world by 2023 (individuals with assets of more than US\$30m) with Asia and Latin America seeing a high proportion of this emerging wealth.

The global financial crisis underlined not only the wealthy's affinity with property and land, as a means of sheltering their capital from the volatility of the

FIGURE 2
Supply and demand (million hectolitres)



Source: OIV

financial markets, but also their growing propensity to own a mixed property portfolio worldwide.

Luxury homes in global cities are still top of their list, but vineyards, ski homes and private islands are increasingly on their radar too as they see the advantages of buying a lifestyle acquisition which is capable of providing an investment return as well.

Knight Frank's Attitudes Survey, which analyses the views of wealth advisors representing 30,000 UHNWIs, found that Latin Americans and Russians were the most interested in owning a vineyard (figure 3). Interestingly, analysis on a country by country basis revealed 45% of Chinese UHNWIs were interested in vineyard ownership.

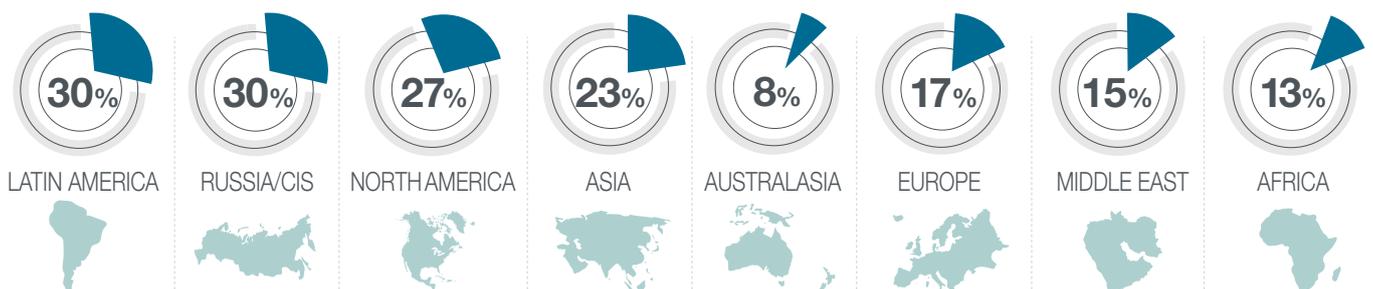
Supply

Since 2000 the total surface area of the world covered in vines has shrunk 4%. The 'new world' markets, where land is more easily acquired and newly planted, is helping to offset the decline in countries such as France, Italy, Spain and Portugal where the surface area has dropped 14% overall over the same period.

This need to improve yields, along with more environmentally conscious consumers, is leading some vineyard owners to explore more sustainable practises. According to our Vineyard Survey, over 80% of respondents said they were seeing interest strengthen in those vineyards that have adopted organic, biodynamic or sustainable methods, with France and Italy leading the way.

FIGURE 3

What percentage of your clients are interested in owning a vineyard? (%)



Source: Attitudes Survey, Knight Frank Wealth Report 2014

WHO'S BUYING?

All eyes seem to be on Asia but the buyers from the US, Switzerland and Brazil are increasingly active and looking further afield too.

The flow of vineyard buyers is an increasingly global affair but the influence of overseas buyers varies significantly from region to region, and even from village to village in France and Italy's case.

Tuscany currently attracts the largest proportion of international buyers (60%) with some areas such as Chianti and Montalcino seeing an even higher percentage (up to 80%) due to the reputation of the local wine (figure 4).

Mendoza in Argentina, which is home to a large number of US, Canadian and also European vineyard owners, is in second place with around 50% of buyers originating from outside of Argentina.

Barossa Valley (Australia) and Bordeaux are at the other end of the spectrum with foreign purchasers accounting for only 10% of buyers. The reasons differ for this low percentage. Bordeaux's low proportion of foreign buyers is attributable to the dominance of

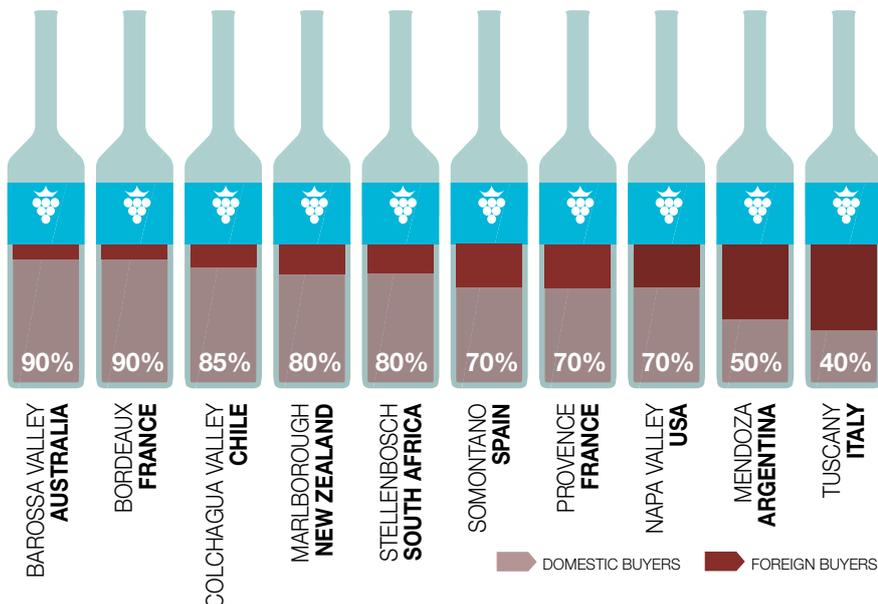
commercial owners and off-market domestic sales while a slump in prices (until recently) has deterred some buyers in Barossa Valley, a trend we expect to change as Asian interest strengthens.

The presence of Asian buyers is no longer confined to just Bordeaux, our survey showed that they are increasingly active in the US, New Zealand and Australia (figure 5).

Only two or three years ago any reference to Asian buyers was synonymous with the Chinese but now it refers to a much broader mix of nationalities from Vietnamese to South Korean as well as the ubiquitous Hong Kong wine enthusiasts.

The Americans are also broadening their reach, although still active in Latin America, they are looking further afield, to Italy and also to New Zealand. Brazilians are no longer focussed solely on Chile, Argentina and the Napa Valley but are interested in Tuscany, in particular Montalcino.

FIGURE 4
Buyers of lifestyle vineyards: domestic v foreign (%) 2014



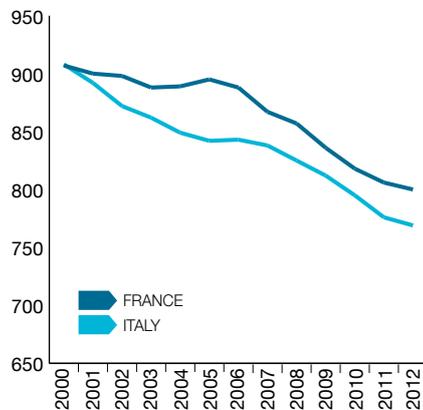
Source: See back page

FIGURE 5
Foreign nationalities purchasing vineyards by region 2014



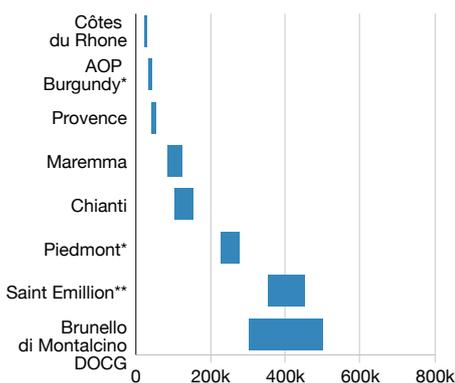
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FIGURE 6
Vineyard area by country
Thousands of hectares



Source: OIV

FIGURE 7
Typical price of a 'lifestyle' vineyard
(€ per hectare) Q2 2014



Source: Knight Frank Residential Research, Safer

* The price of vineyards in the Barolo DOCG can reach close to €1m per hectare
** Bordeaux's AOP Pauillac is priced at c.€2m per hectare and Burgundy's AOP Cotes des Nuits and Grand Cru is priced at around €500,000 and €5m per hectare respectively but few if any lifestyle buyers are able to access these markets

MARKET FOCUS: FRANCE AND ITALY

Europe's wine-making powerhouses, France and Italy, are together responsible for 32% of the world's wine production but what challenges and opportunities do vineyard owners in these countries face?

Both France and Italy have seen the surface area of their vineyards decrease by 12% and 15% respectively since 2000 (figure 6). The Languedoc alone has lost 170,000 hectares of vines, removed as part of the EU's Common Agricultural Policy. With the volume of vineyards shrinking, unpredictable weather patterns (2012 and 2013 saw Bordeaux's vines decimated), increased competition from 'new world' markets and accelerating storage and marketing costs, there are challenges for even the most optimistic of buyers.

Pricing and location

In France considerable weight is given to the AOP (Appellation d'Origine Protégée) of the area or in Italy's case the DOC (Denominazione di Origine Controllata).

Vineyard prices vary considerably with AOP Pauillac in Bordeaux and Brunello di Montalcino leading their respective national markets (figure 7). In both regions, buying opportunities can be limited as lifestyle vineyards have often been in the hands of French or

Italian families for many years and are sold privately without ever coming to the open market.

Commercial ventures also dominate in several key markets. Under French law insurance companies must invest part of their profits back into French real estate which explains the prominence of AXA, Allianz and others on many title deeds.

France

With prime estates in Bordeaux and Burgundy hard to come by, top quality vineyards in Provence, Languedoc, and The Rhone Valley are becoming more and more sought after.

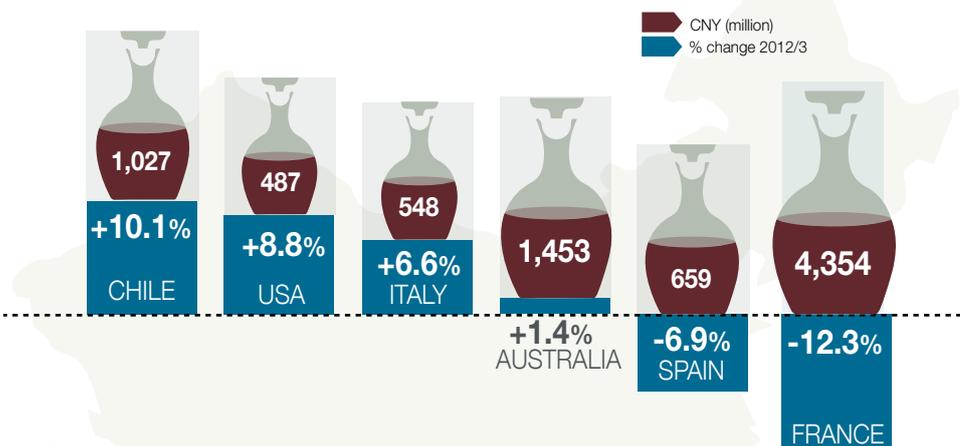
In Provence, there is a great disparity between prices inland and prices on the coast where vines can reach as much as €75,000 per hectare.

According to Adam Dakin, owner of Wine Objectives: "Prices in the vineyards of the Northern Rhône in appellations such as Cornas, Condrieu, Saint Joseph and Crozes-Hermitage are moving up. In the Southern Rhône, Châteauneuf du Pape and Gigondas are particularly sought after from both locals and néo-vignerons. The Cru of Rasteau is also in high demand but the land is fairly well locked in by the cooperative and a few producers. Cairanne is shortly to become a Cru vineyard, with other Côtes du Rhône Villages, such as Séguret, demanding Cru status."

In the Lubéron, vineyards are still very accessible at around €15,000 per hectare, but housing is particularly expensive. Buying a property here is for the wealthy only. Costières de Nimes has been the ugly duckling of the Rhône for a long time, but two large "négotiants" have just bought here.

In the Languedoc the main buyers in recent years have been the large producers and wholesalers, looking to guarantee supply for the developing Asian

FIGURE 8
Goodbye Bordeaux, Hello Chile? Chinese wine imports, 2013



Source: OIV

markets. The market appears to be waking up again with interest strengthening amongst both French and foreign clients. The Pic Saint Loup area still commands the highest prices at around €40,000 per hectare, but the Terrasses du Larzac are extremely fashionable with the arrival of a lot of wealthy Montpellier residents and foreign investors.

Italy

In Italy's case, Tuscany's 'Golden Triangle' which stretches from Pisa and across to Florence and Siena remains the focal point for vineyard enquiries. This area, renowned for its Chianti Classico, continues to draw buyers from around the world with estates priced between €2-€8m generating the strongest level of interest.

Although Tuscany remains a firm favourite with foreign buyers, Barolo wine, made from the Nebbiolo grape in Piedmont, is increasingly on the radar of purchasers

with reports of sales close to €1m per hectare being achieved.

According to Bill Thomson, Chairman of Knight Frank's Italian Network, the difficulty for buyers is pinpointing the top locations. Bill explains: "Wine, unlike almost any other agricultural product is very location sensitive and therefore within each area there are hundreds of micro areas that are better or worse. Real local knowledge and research is the only answer."

"The complexity of wine is that heavy investment in areas can lead to oversupply with all the players reacting in the same direction," adds Bill.

The surge in popularity of Prosecco is also being reflected in vineyard sales with activity to the north of Treviso – Prosecco's traditional home – increasing. According to research by Nielsen the value of Prosecco sales increased 54% in the year to June 2014 reaching £229m, outpacing Cava and rivalling that of Champagne.

Wine investment funds report Asian interest is shifting from French vintages (Bordeaux, Burgundy) to Italian wines (the Super Tuscans etc). There is some evidence of this interest filtering down into vineyard sales but it is still at an embryonic stage.

As with Bordeaux commercial wine producers dominate in Tuscany with Antinori, Banfi and Frescobaldi leading the pack. Beyond these large estates, vineyards are often very small and micro managed.

Asked whether buyers are willing to look outside the prime locations to get a better deal Bill explains: "Buyers, be they domestic or foreign, are often willing to look beyond the key areas if their focus is primarily on the property and the vines are a lesser priority. However, if profitability is key we will always advise them to buy in the areas where the wine will be easier to sell."

WINE V VINE

Knight Frank's Luxury Investment Index, which tracks the performance of a number of investments of passion from watches to cars, rose by 6% overall in the year to June.

The annual return of a lifestyle vineyard (4.5%) compares favourably with antique furniture, ceramics, stamps and watches but was outpaced by classic cars based on the last 12 months performance (figure 9).

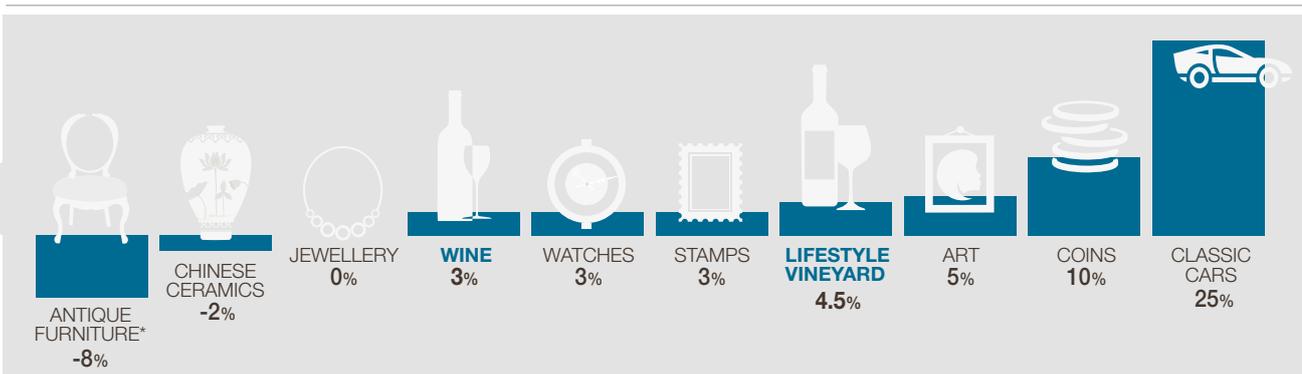
Interestingly, a lifestyle vineyard also outperformed wine as an investment over the same period. Our newly-created Knight Frank Fine Wine Icons Index (FWII) increased by 3% in the year to June. The FWII, created by our partners Wine Owners, reflects some rarer, more iconic vintages and is less reliant on French wines than the Live-ex 100, particularly when it comes to traditional Bordeaux.

The relationship between fine wine as an asset class and the price of a vineyard is negligible but there does seem to be some correlation between bulk wine and vineyard prices. If bulk wine prices rise, demand from both prospective and current vineyard owners intensifies reducing the availability of land and inflating prices.

FIGURE 9

Investments of passion: how does a vineyard compare?

Annual % change to Q2 2014



*Furniture data to Q1 2014

Source: Knight Frank Residential Research using data from Art Market Research, Wine Owners, Historic Automobile Group International (HAGI), Stanley Gibbons



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