

## FT Wealth Wine

## The financial risks of chasing scarce Burgundy wines

Growth in worldwide interest has pushed prices of these domaines to record highs

The June auction of the last bottles of Henri Mayer

Emiko Terazono SEPTEMBER 2, 2018

It seems the fine wine market cannot get enough of burgundy at the moment. But low production could make these wines more suited to collectors than investors. Witness the sale this June of the legendary burgundy vintner Henri Mayer's last bottles, which raised SFr35m (\$35m), the largest total for a single-wine auction.

Fierce bidding for the wines from Mayer's cellar 12 years after his death pushed up sales to more than double the high end of estimates at SFr13m. Many connoisseurs considered Mayer's wines "the finest expressions of pinot noir that can be found", says Julie Carpentier, deputy director of Baghera Wines, the auction house that conducted the sale in Geneva.

Growing worldwide interest in wines from France's Burgundy region has pushed prices to record highs over the past few years. The rise reflects the scarcity of wines from the region relative to Bordeaux, as well as growing demand for bottles from top producers.

"Many of the top-tier domaines [wineries] are unbelievably sought after," says Dan Jago, chief executive of London-based wine merchant Berry Bros & Rudd, who warns of an "overheated market".

Online wine exchange Liv-ex's Burgundy 150, which measures the most active burgundy wines in the secondary market, has jumped 150 per cent since 2010, compared with 32 per cent for the Liv-ex 100 broader fine wine benchmark and 39 per cent for the Fine Wine 50 index, representing the most actively traded bordeaux first growths.

Michael Ganne, executive director at Baghera Wines

"We're seeing prices we haven't seen before," says Ed Jackson, an analyst at Liv-ex, adding: "But considering the [supply and demand] fundamentals, it makes sense."

Compared with their bordeaux counterparts, burgundy production from the top wineries is small, with bottles bought by loyal followers, who get an allocation from the winemaker.

Based on publicly available information about yields and vineyard surface areas, Liv-ex estimates Domaine Leflaive produces a maximum of 400 bottles of its Montrachet wine a year, while Domaine de la Romanée-Conti produces a maximum of 5,000 bottles of Romanée-Conti. In contrast, the maximum yield for Bordeaux's Petrus is 60,000 while for Lafite it is 240,000.

A sequence of disappointing harvests because of bad weather has led to some of the lowest production totals on record, adding to the scarcity. "A lot of domaines are producing cases by the hundreds rather than the thousands," says Jago. "Increasingly, allocations are by the bottle or three bottles."

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Ed Jackson, analyst, Liv-ex

The low supplies have come at a time of increasing interest from oenophiles for burgundies. "Domaine de la Romanée-Conti has fuelled demand and others such as Henri Jayer, Armand Rousseau, Coche-Dury and Leflaive have become 'must have' domaines," says Stephen Mould, head of Sotheby's Wine, Europe. The auction house watched as enthusiasm for burgundies pushed the region's share of sales in 2017 up five percentage points to 39 per cent of worldwide beverage revenues. Meanwhile, for the first time since Sotheby's started selling wine in 1970, the share of bordeaux fell below 50 per cent to 40 per cent in 2017, down from 52 per cent the year before.

Asian buyers demanding the "best of the best" have boosted the increase in burgundy sales, says Mould. "The interest in old-world regions of Bordeaux and Burgundy is insatiable, particularly the latter."

For all the buzz around burgundies, some industry commentators caution that the thin liquidity, the very reason why prices are being driven up, makes the wines unsuitable for investors in fine wines. Although the burgundy market has broadened, with more people trading in the secondary market, the low liquidity compared with the market for top bordeaux wines presents a risk.

"We believe these are [better] suited to the collector than the investor, who is trying to make money out of the market," says Philip Staveley, head of research at wine investment specialists Amphora Portfolio Management.

As an illustration of the limited trading volumes, the difference between the bid and offer

price — or the buying and selling prices — remains wide. According to Liv-ex, the bid-offer spread for the Burgundy 150 is about 15 per cent, much higher than that of the Fine Wine 50, which is roughly 3.5 per cent.

As prices for the top wines reach eye-popping levels, the temptation to speculate on a relatively unknown burgundy wine may be strong, but Staveley describes such behaviour as “no more than a hazardous punt”.

For aspiring collectors for whom burgundy wines might seem almost unobtainably expensive, Jago suggests there is some value in Côte de Beaune, one of Burgundy’s five sub-regions. He explains that the burgundy fine wine market has evolved into a three-tier market, with the top tier made up of about 20 domaines, including Domaine Armand Rousseau and Domaine de la Romanée-Conti.

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The second tier consists of well-known domaines producing good wines that collectors can drink over time, including Domaine de la Vougeraie and Domaine Cathiard.

The third tier are entry-level wines, but even some of those areas have already become overheated, believes Jago. “Côte de Nuits appellations of Chambolle-Musigny, Vosne-Romanée and Gevrey-Chambertin are already very inflated in value,” he says.

Buyers can, however, find value in the villages of Saint Aubin, Volnay, Auxey-Duresses and Maranges in Côte de Beaune, and Marannay and Morey-Saint Denis in Côte de Nuits, Jago says. “These are all making lovely wine styles and have fine vineyards which are increasing in quality all the time.”

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