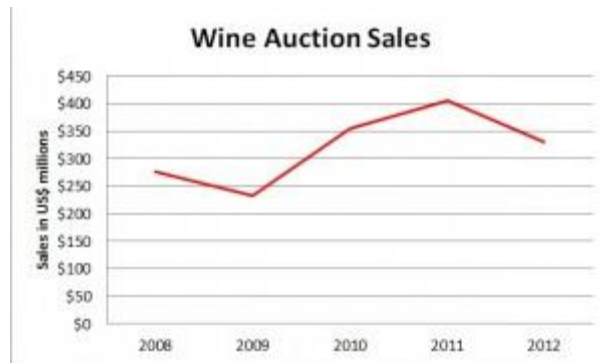


2012 Wine Auction Market Analysis



2012 was a fascinating year for fine wine. In a year filled with landmark sales from cellars filled with treasures of impeccable provenance, seldom has so much extraordinary wine come to market. One could also simply say “seldom has so much wine come to market”, since the volume has been extraordinary as well. Most houses have moved from having a gentlemanly six or seven sales per year to having twenty or more each year. Sales also happen in more sites than ever before and volume continues to build in the key Hong Kong market. Yet, despite all of the activity, value is sharply down. Preliminary figures suggest that the five big auction houses (Christie’s, Acker Merrall, Sotheby’s, Zachys, and Hart Davis Hart) will ring up only US\$ 330 million in 2012, down from over US\$ 400 million in 2011. As with all tales of woe, however, there is more to this story than meets the eye.

In broad strokes, total market value for fine wine sold at auction has declined by approximately 20% in calendar 2012. In simplest terms, this is because the fine wine market is mostly composed of wines from Bordeaux, and Bordeaux has had a rough time of it this year, carrying overall results sharply lower, even though prices of the top Burgundy domaines have been at an all-time high. The strength of Burgundy prices has helped bring incredible wines to market, but even in a year as loaded with Burgundy as 2012, there is simply not enough wine to move the market significantly higher: the past twelve months have seen auctions that were composed of at least 70% Bordeaux on average, down from as much as 90% during the first years of the Hong Kong wine boom.

The vigor of the Hong Kong market became an important factor at the end of 2008, with this market heating up just as wine prices began to nose-dive in wake of the subprime mortgage crisis and the collapse of Lehman Brothers. Enthusiastic Asian bidding drove the wine market back up in early 2009, fueled by ready stocks of young Bordeaux. The Asian market developed quickly, however, and soon increasingly sophisticated collectors began to seek out other types of wine and sales of Bordeaux began to drop—particularly the Château Lafite, the Chinese favorite. Although the predictable “brands” in Burgundy such as Romanée-Conti and Henry Jayer’s Clos Parantoux were early beneficiaries of this trend, and Burgundy prices have skyrocketed. Of course, there isn’t enough of either of these wines to compensate for a 20% correction across the board in the price of Bordeaux wine, thus the present dip in sales.

Some auctioneers lost more ground than others during this rollercoaster year. At the head of those who rode out the storm well was London-based Christie’s, who beat out competitors to tally preliminary sales in excess of US\$ 90 million. Included in this figure are the internet-only sales that they began late

this year as well as the US\$ 7.6 million total for the charitable sale that they organize for the Hospices de Beaune in Burgundy. Although it is not customary to include charity sales in the years' total, the sale for the Hospices is charged a buyer's premium (unlike other charity sales), and is thus rightly included in the tally since the auction house will profit as it will from any other sale. This total is on a par with their performance last year, and in the context of a difficult year such as 2012 this must be considered a very strong performance. Furthermore, these figures do not include private sales which will be added into the final figures announced later this month. Private sales of wine, as with art, are those sales where the auctioneer acts more like a broker and sells wine for a fixed price outside of the context of a public auction. Given the dynamics of the present market, private sales will likely play an important role in the fine wine market in years to come.

As one might expect, eight of the top ten most valuable lots sold by Christie's this year are Burgundy. Of the two that weren't, there was a 92 bottle vertical of Château d'Yquem that sold for US\$ 244,000, and a case of 1947 Cheval Blanc that sold in Geneva for nearly US\$ 17,000 per bottle. What is particularly interesting about the Burgundy is that seven of the eight were all from one collection, the private cellar of Henri Jayer. These bottles, brought to market by the daughter of the late winemaker, set records that will doubtless stand for years to come. Particularly notable were bottles of 1978 Richebourg that sold for nearly US\$ 68,000 per bottle, and magnums of 1985 Richebourg that sold for a pro-rate price equivalent to almost US\$ 55,000 per standard bottle.

Coming in just behind Christie's was Acker, Merrall, with US\$ 83.3 million in sales. Of this figure, 56% was realized in Hong Kong, with the balance sold in New York, Chicago and online, since Acker does not conduct sales in Europe. This total represents a 24.3% decline from the more than US \$110 million they sold last year, yet it still represents the largest share of the important Hong Kong market. As with Christie's, most of the top ten results were sales of Burgundy, although at Acker, Romanée-Conti led the pack. The top result (at US\$ 353,000) was for a vertical of full cases of Romanée-Conti that included the '97, '98, '99, '00, '01, '04, '05 and '06 vintages. Coming in just after this superlot were two cases of Bordeaux. The first of these was a case of the legendary '45 Mouton, selling for US\$ 214,000, a world record price. A case of '47 Cheval Blanc was another top performer for Acker, although at \$185,000 per dozen, it was almost \$20,000 less than a similar case at Christie's Geneva sale.

Sales by Sotheby's international wine department also declined in 2012, from US\$ 85.5 million to US\$ 64.5 million, a drop of 24.9%. This was the second year of declining sales for Sotheby's, whose sale had reached US\$ 88.3 million in 2010, results that had been buoyed by demand from mainland Chinese and Hong Kong-based bidders that has declined from its peak due in part to uncertainty surrounding the transition in the Chinese government, new austerity rules there as well as crackdowns on smuggling of all sorts, including wine. Sources at Sotheby's note in their year-end press release an uptick in buying by South American clients, although indications are that this will not yet fill the void left by Chinese buyers. In spite of this decline, there were enthusiastic prices achieved in several categories throughout the year. The top lot of the year came in January, when a case of Romanée-Conti sold for US\$ 235,000 (over US\$ 19,000 per bottle). The aggregate price for this case was higher than their result for the same wine in October, when a nine bottle lot of 1990 Romanée-Conti sold for over US\$218,000, although the October result pro-rates to more than US\$ 24,000 per bottle, a near-record price and a high for the year. Bordeaux also did well at Sotheby's, although their top lot here, a case of 1945 Mouton-Rothschild, sold for US\$ 147,000 in December, significantly behind Acker's March result. Sotheby's year end press release emphasized the prestige of the sales coming directly from various châteaux held throughout the year, such as Cheval Blanc & Yquem, Krug, Colgin Cellars, Louis Roederer, and Hermitage

La Chapelle, and indeed their top lot in the Cheval Blanc sale was a single magnum of the legendary 1947, selling for over US\$ 60,000, a record for this wine.

Zachys wine auctions also had great success with this wine – their top lot of the year was a full case that sold for US\$ 161,000. Overall, Zachys sold just slightly less than Sotheby's, with a total of US\$66.4 million. This result, however, was accomplished without the benefit of a London saleroom. Other than the Cheval Blanc, many of their top results were also from the Domaine de la Romanée-Conti. In October six bottles of the 1996 Romanée-Conti sold above the high estimate for US\$ 154,000, and in May a methuselah of 1990 sold for US\$ 149,000, which pro-rated is nearly the equivalent of the Sotheby's result in January. A methuselah of '88 Conti in May brought US\$ 87,000.

Hart Davis Hart suffered perhaps the most in 2012, with sales dropping 30% from US\$ 37.4 million to US\$ 26.3 million. A regional Chicago-based auction house, HDH in recent years has taken on national stature in the United States, bolstered in part by their ability to draw clients from Brazil and Hong Kong. The absence of diversified salerooms, however, has probably hurt them during the difficult 2012 trading conditions, and one imagines that the arrival of Acker, Merrall in Chicago after their purchase of local auction house Edward Roberts in June of 2011 has also been a contributing factor. Three lots tied at the top of their list top lots, all selling for just shy of US\$ 60,000, including six packs of 2007 and 2001 Romanée-Conti and a 1990 DRC Assortment case. The '07 RC price was off the US\$ 12,700 per bottle set at Acker's November sale, and the \$10,700 per bottle result for the 2001 fell short of the US\$ 13,600 achieved by Sotheby's in October, but the same price for the 1990 Assortment was the highest of the year, and much better than the total of just over US\$ 50,000 that they achieved in June.

All of the attention paid in the press to declining sales and the significant corrections experienced by wines such as 1982 Lafite, however, mask the fact that the market is fundamentally very healthy. There is more volume moving through the world's sales than ever before (albeit at somewhat lower prices), and wine of great provenance and rarity is selling at record prices. Fine wine has reached a new audience in Hong Kong and mainland China, with Brazil close behind and India waiting in the wings. Perhaps most exciting, however, is the fact that while top dollar is being paid for the best wines, there are still bargains around for the less well-heeled. Now is the time to purchase top Bordeaux, which haven't been this inexpensive in some cases since 2006, to sell DRC and Jayer, and keep your eyes open for the next big thing in 2013.