Fine Wine Auction Trends: Part 1

In the first of a two-part series to mark the start of the fall auction season, Maureen Downey assesses the market.

As we approach the live auction season, it may be helpful to look at some trends in the different global wine auction markets before you get your bids in, or decide what wines to sell and in which venue or location.

It is important to consider the influences on – and successes of – the major auction markets: Europe, Hong Kong and the USA. Due to different cultures, wine preferences and bidding pools, different wines excel in different locations.

In the last few years, Hong Kong became the dominant auction market, and the rise of online sales offered by traditional brick and mortar auction houses has changed the landscape even more. While global wine auction trends have varied widely since 2008, just like other economic markets, the situation appears to be normalizing; all signs point to a stellar upcoming season for sellers and bidders the world over.

Recent wine auction history:

Wine auctions have been regular occurrences in Europe for centuries. In New York City, they only became legal in 1994. There were few venues auctioning wines in the nascent market of the late '90s, but live auctions in the U.S. as a viable source of fine and rare wines for collectors was growing steadily.

Chicago and San Francisco had legalized wine auctions decades prior to New York, but never garnered significant enough results to become commercial centers in the global market of wine. After just a few years, the Big Apple bypassed London as the core of the global fine and rare wine market.

The rise of Asia:

When the crippling 40 percent import taxes for wine were eliminated in Hong Kong in February 2008, the fine and rare wine world rushed in to fill a void for wealthy Asian businessmen, and made Hong Kong – and, in turn, Asia – the commercial center of the fine-wine world. (Yes, I say businessmen, not because I am sexist, but because that is the reality. This is an even more male-driven market than the U.S.)

Once the tax was eliminated, sales quickly increased in Hong Kong, raising US$28m during 2008. In 2009, that figure jumped again to $64m. A year later Hong Kong unseated New York as the dominant global market for fine and rare wines, generating $164.7m in sales (although, after several years of
global domination, the wine that has poured into Hong Kong via auctions, brokers and retailers looks to be turning into a glut).

© AFP | The changing place of auctions: from Europe (R) to Asia (L)

Since 2008, producers have given larger percentages of their highly allocated stocks to Asia, somewhat starving the markets in Europe and North America. Inadvertently, U.S. and European collectors were ignored in the rush to placate the insatiable Asian demand. However, many found they were not negatively affected, as the market for fine wine completely collapsed in late 2008 amid the global economic downturn.

The fact that fine-wine sales had shifted its focus to Asia was good timing, considering the extent of the decline in both prices and demand for many wines in North America and Europe. Today, collectors in these regions appear to be back in a buying position, but find themselves starved for sources of fine and rare wines – potentially setting up European and American venues as the next "hot spots" for auctioning wines.

The influence of the internet:

Historically, wine auctions were live events where participants could bid via phone, order bid (aka absentee bid), or be present in the auction room. In the past few years, the internet has changed the face of wine auctions. Not only can bidders watch and participate in the auctions remotely online, but many houses now offer internet-only auctions as separate sales. Most traditional brick and mortar auction houses have introduced a whole new layer of buying possibilities to the wine-auction landscape with these online sales. There have, of course, been online-only auctions in the wine business for years, but none has offered the level of oversight and trust that major collectors have in the online sales held by reputable brick and mortar houses.

Buyer beware:

One of the most important factors in selling or buying at auction is having faith in the professionalism and ability of the auction staff in their ability to vet the authenticity and health of a bottle of wine before representing it. They must also be capable of properly managing a consignment, delivering the wines to buyers, and paying the consignors in a timely fashion – the latter being a huge problem for some less trustworthy houses.

I would like to think it goes without saying that buyers and sellers would only choose reputable auction companies with whom to buy and sell wines. But I continue to be amazed at the apparent success some dubious companies are still enjoying. To most of us in the industry, it is actually quite shocking how little the market has been affected by some very public scandals.
Current market overview:

Since 2010, Asia and Europe have experienced wild fluctuations in the prices achieved at auction. The USA, by contrast, has been relatively stable.

Average bottle prices

European auction results seem to swing wildly, with either incredibly strong results or rather weak ones. Further analysis shows that this fluctuation varies in accordance with the quality and provenance of the product available in any given auction, more than the activity and willingness to spend by the bidders. The spike in European prices here can, in part, be attributed to some amazing single-provenance sales. For example, the auction of wines from the Elysée Palace cellars in Paris in May 2013, caused a spike similar to the one shown in the 2012 chart above. In looking at the results of a number of recent sales in Paris, Switzerland and London, there is definitely a renewed interest on the part of the European collector in purchasing on the continent.

Recent trends in auction prices achieved (Q1 2013)
Over the past several quarters we have seen a global rise in the prices of blue-chip Bordeaux, despite a mellowing of the frenetic Château Lafite Rothschild prices that were driven by the Asian market. In fact, Bordeaux is the only region showing significant growth, with both first growths and super seconds commanding strong positive figures. In a reverse of past swings – likely due to buyers fearing that they will receive fraudulent bottles – there is a significant demand for youthful, not aged Bordeaux.

When asked about the current state of the market, Jamie Pollack, managing director North America for Zachys Wine Auctions stated: “Burgundy is still hot, but – as highlighted in the hammer prices in our last auction of the spring season – so are cult Californians and spirits. At this point, our hammer prices are definitely stronger for 2013.”

Scott Torrence, VP and senior wine specialist of Christie's North America, notes: “We, too, are seeing what I would term modest gains in the market, building on growth seen in Q1 & 2. Results for top selections of Bordeaux, in particular, seem to be holding recent gains and are consistent with the market peaks last achieved in 2007-08. Top Burgundy is holding its historical market highs.”

In Part 2, I will assess each of the main wine-auction markets and make predictions for the year ahead.

* Maureen Downey is the owner of San Francisco-based Chai Consulting, a firm which advises collectors of fine wine. She is an expert on wine fraud. The opinions expressed in this article are Downey's own, and do not necessarily reflect Wine-Searcher's views.

** Material for graphs sourced from Winemarketjournal.com.

Published by Wine-Searcher.com
Who buys where:

At European auctions, the buyers include many collectors from the USA and Asia. Across the Atlantic at New York auctions, Europeans are active bidders. But when it comes to sales held in Asia, there is still a reluctance among Americans and European collectors to participate. Those I speak with are not willing to bet the increased risk associated with bottles having to cross the ocean multiple times when – with patience – they can acquire the same wines in Europe and New York.

I first started working in live auctions in 2000, when they were a relatively new phenomenon in New York. At that time, I met the same level of resistance and heard the same reasoning from European collectors; they would not make purchases in America, as wine that had crossed the pond was inherently “tainted” by the long journey. Today, Asia has taken over that “travel tainted” crown. Add in the issues of fraud that are heightened when a wine has passed through Asia, as bidder reluctance grows.

However, if one is dealing with a reputable auction house, neither authenticity nor conditions should be of concern. That said, even with the best conditions, you cannot escape that fact that a case of wine has traveled quite a lot if it has gone from production in Europe or California, to NYC, to Hong Kong, then back to a buyer in Europe or the USA.

The success of an auction in Asia is highly dependent on the participants rather than market forces. Many new Asian collectors want what they want and are no price sensitive. If it is on their “wine to have in the collection” list, they will bid to win. If there are two such collectors participating in a given auction, the result is often ridiculous prices that actually have no relation to market value. We see many price spikes that are the result of these face-offs and they unfairly move prices beyond what the real market will bear.

Participation in U.S. live auctions is relatively stable, as the chart below shows. This is likely the result of a relatively strong and consistent level of participation. And apparently more bidders are gearing up to attend live auctions in person this fall. Jamie Pollock, managing director North America for Zachys Wine Auctions, commented:

“More than ever before I am having buyers approach me about setting up time to travel in for the auctions, instead of participating via absentee bid or the internet.” This applies to both American collectors traveling to the U.S. September sales and to Asians traveling to Hong Kong.

Perhaps it’s the economy, perhaps it is the fact that people are starved for some fun. Auctions like those run by Zachys offer a great venue for collectors to share wines and hang with like-minded folk.

© AFP | Jamie Pollock serving wine at a Zachys auction

Trends in wines by market:

What we can see from the charts below is that the results for the top fine and rare wines are flattening out globally, but the shock is with the strength of the European market results. It used to be that collectors would be advised to sell first-growth Bordeaux and DRC in Asia, Californian wines in California, and lesser French properties in France. Clearly, from the examples shown here, that is no longer the case. The European results are the stand-outs. It is a market that has been widely overlooked in the last decade but that approach many now need to be revised.

DRC La Tâche 1995

[Graph image]

Latour 2000
Prices very similar in all markets, except for a large spike in Asia in Q3 2010.

**Petrus 1982**

Consistently higher prices in Europe (excluding Asian spike in Q3 2010), and lower prices in U.S. than other two markets.

**Screaming Eagle 1994**

No market in Europe, and relatively little in Asia.

**Wine auction sources:**

One noticeable trend is a shift towards consignors who are selling wines only to "thin out” their collections, rather than the traditional “4 Ds”: death, divorce, disease and debt. Many, especially in the U.S., started collecting in the late 1990s as the economy was booming. They also had greater access to valuable information from critics such as Robert Parker and Jancis Robinson MW, as well as easily researched material on the internet that turned many enthusiasts into self-made experts almost overnight.

Today, collectors are realizing that their tastes and preferences have changed since their nascent days of buying wine. In addition, their wives have had it with wine spilling out of the packed wine cellar and into the hallway (this, despite the fact that collectors often have considerable off-site holdings as well). Many of the consignments we will see in the coming season are the result of collectors paring down their cellars. This is also happening in Asia, where collectors are realizing that they have purchased so much good wine in the frenzy of the last few years that their holds far outstrip what they will be able to consume in their lifetimes.

This can be a great benefit to the buyer, as the love and care (read: careful purchase and storage history) extended to the wines on offer mean they can be trusted.
My predictions:

Asia's domination as the global center for fine and rare wine auctions will continue to wane. Many Asian collectors have already filled their cellars with all the "right wines," and as they are not a high-consumption culture, they do not need to replenish their holdings the way that collectors do in the USA, Europe, Australia and New Zealand.

Asia will remain a strong market for current/new release wines, but most of the billionaires who decided they just had to have a collection have checked off the must-have wines off their lists; they are done with the crazy bidding of the past. However, when collectors here start to sell off wines purchased from the less reputable auction houses that used Asia as a dumping ground for counterfeit wines, the whole fine and rare world is in for some pain.

Europe has been woefully ignored since NYC became the center of the fine wine world just after the turn of the century. While the economies of most European countries are still suffering, it is time for collectors to replenish and stock up. I think we will see an increase in both European buyers and consignors as those of the "great generation," who were classic collectors, start to pass away and their non-wine-collecting children liquidate the assets.

The USA will see a resurgence in the coming live auction season. For the past 3 quarters, many reputable U.S. auction houses have seen increasingly healthy results. The lineup of wines this fall in New York, Chicago and California is strong, and bidders seem to be champing at the bit to participate.

We can also expect to see continued strong results from Burgundy, and increasingly robust results from Bordeaux. The sea change with Bordeaux is that it is looking like super-seconds and youthful Bordeaux. Zachys' Jamie Pollock noted: "Bordeaux is trending well and there is regained interest especially in the younger vintages, which had taken quite a hit in the past few auction seasons."

The shocker in upcoming auctions may be an emergence of interest in Californian wines – and not just the cults. Aged, classic Californian wines, which have not lately been favored in live auctions, are experiencing a spike in demand.

As Scott Torrence of Christie's puts it: "The great opportunity is with mature, well-colored, properly priced collections featuring domestic producers. While the cults are still looking to match their historical gains, I believe there is an under-served desire for mid-tier Napa-Sonoma producers."

And finally, I believe there will be an emergence of interest and participation in spirits auctions. This is a category that is relatively new to the USA, but it has garnered huge amounts of interest around the globe in the past few years. I believe that this auction year, the time for spirits has come.

Happy bidding!

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