UK Rural - May 2019

SPOTLIGHT
Savills Research

Viticulture in the UK

savills

UK wine market • Setting up a vineyard • Investments and yields • Imports and exports

1997
Sussex vintner Nyetimber won gold at the IWSC

15.6m
Bottles of high quality wine make 2018 a vintage year

3x
The area under vine has tripled since 2000

A growing industry

In the last 20 years UK wine has been recognised as a serious business and now offers a flexible way for landowners to diversify

Even the most optimistic person would describe the present economic, political and climatic period as volatile. Farming is far from insulated from these events. Short term, the Common Agricultural Policy (CAP) will come to an end and be replaced by an uncertain system of public money for public goods. Longer term, climate change will likely increase the frequency of freak weather events such as floods and droughts. Creating multiple income streams and tapping into niche areas such as viticulture allows businesses to mitigate risk from this uncertainty.

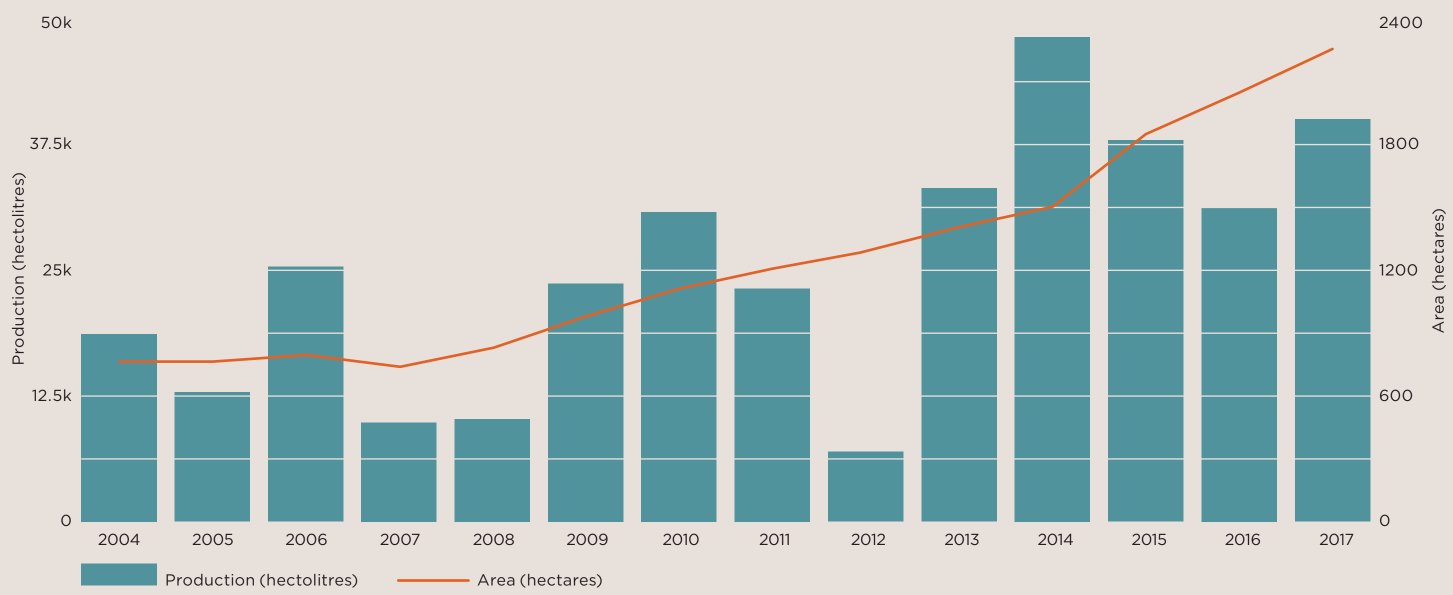
Growing grapes in Europe is no longer restricted to the Mediterranean. It is one of the fastest growing areas of the UK economy and an opportunity for landowners to diversify. Viticulture can begin as a small project, needing only around three hectares potentially to turn a profit. This small commitment could appeal to those with smaller holdings or those who want a new enterprise without adversely affecting existing rotations. Our nation's talent for wine-making was only recognised around 20 years ago, but has grown rapidly to meet an increasing demand for domestic vintages (*see below*).

Yields of grapes can vary a great deal from year to year because of the weather. Poor years occurred in 2008 and 2012 through bad weather and low light levels. However, the extreme heat of 2018 has been described as "the worst summer for decades" by arable farmers, while English wine-makers described the same summer as "near perfect". A high quantity of high quality grapes gave 15.6 million bottles of wine.

Demand for UK wine is currently ahead of supply. Almost all of the area under vine is dedicated to high quality grape varieties and that area is growing fast. It has tripled since 2000. The national story began when Sussex vintner Nyetimber won gold at the International Wine and Spirits Challenge in 1997. Since then, UK wine has been recognised as a serious business, producing high quality goods.

Viticulture is a flexible way to diversify and almost any landowner can get involved. Simply growing grapes and selling them to another wine-making business may be enough for some, but far more can be done. Even if wine is produced off-site on a contract basis, the finished article would be an attractive product on local shelves or in local restaurants. Vineyards themselves are often found on sunny hills in picturesque parts of the country, ideal for hosting tourists for a day trip or a weekend getaway.

Production and area under vine One of the fastest growing areas of the UK economy

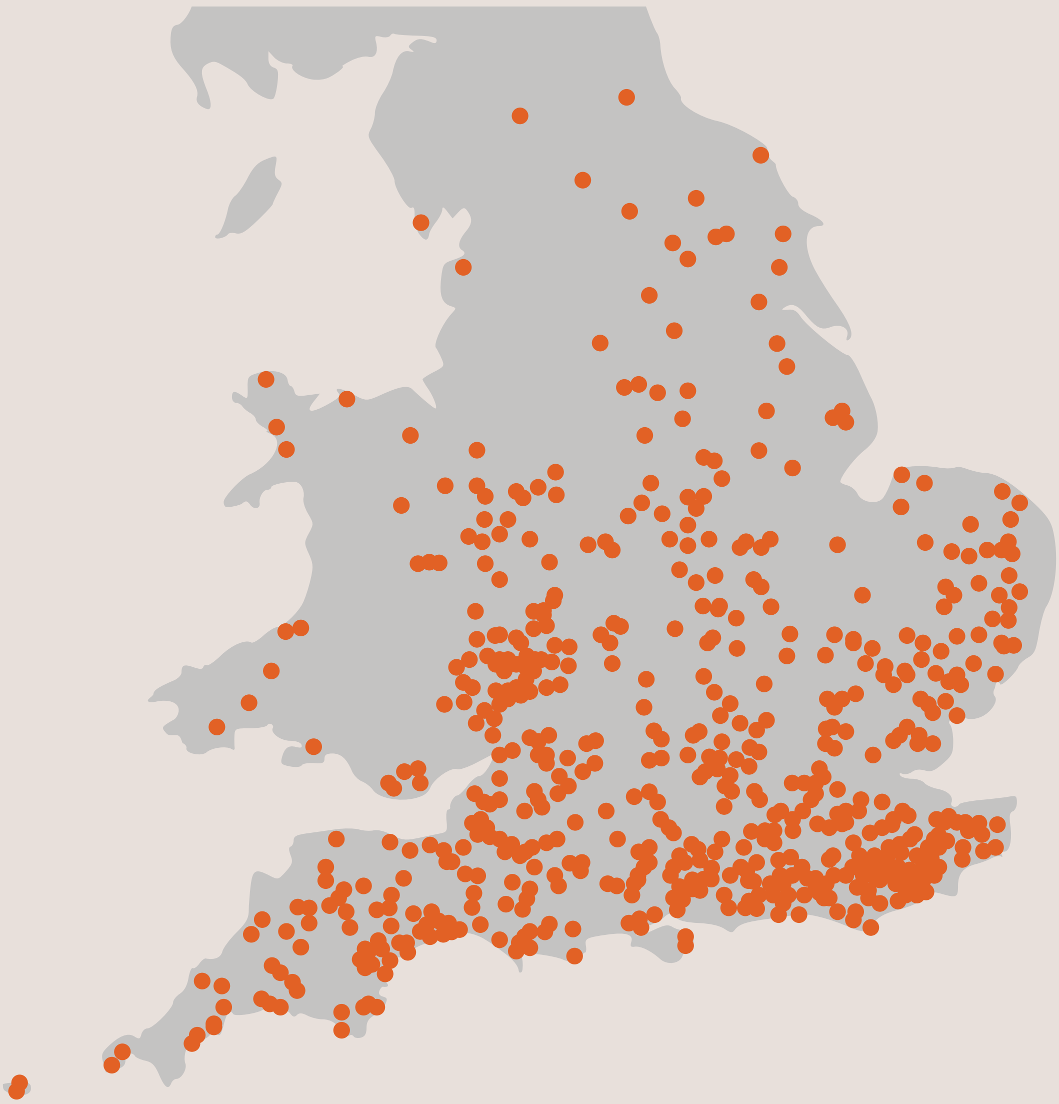


Source UK Vineyard Register: Food Standards Agency

> "Our nation's talent for wine-making was only recognised around 20 years ago, but has grown rapidly to meet an increasing demand for domestic vintages"

> "Demand for UK wine is currently ahead of supply. Almost all of the area under vine is dedicated to high quality grape varieties and that area is growing fast"

Vineyards in the UK High demand for domestic vintages



Source UK Vineyard Register: Food Standards Agency

PREMIUM PRODUCE

In 2018, Cornwall's Camel Valley was the first UK vintner to be granted a Royal Warrant, joining well-known names such as Champagne Bollinger and Moet & Chandon.

French Champagne house Taittinger planted 40 hectares of vines in Kent in 2017, the first Grande Marque Champagne house to do so.

The Ridgeview Wine Estate in East Sussex won international recognition after winning the International Wine and Spirit Competition Quality Award in 2018.

700+

There are over 700 individual vineyards in the British Isles

Who is spending what on wine?

Consumer	Modal age	Market share	Value share	Varieties consumed*		
				Red	White	Rosé
Beginner	18-24	37%	8%	47%	64%	64%
Occasional	45-54	28%	8%	68%	70%	40%
Regular	45-54	14%	22%	74%	72%	35%
Explorer	55+	15%	28%	77%	73%	39%
Expert	55+	6%	35%	100%	86%	50%

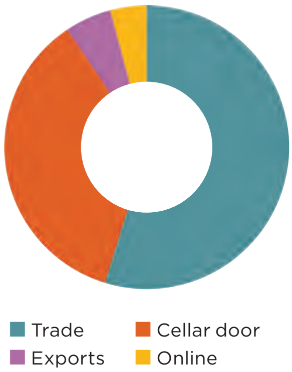
* % of respondents

Source Accolade Wines

> “Wine production generates £17.3 billion in economic activity and contributes £9.1 billion to the public purse through taxes and duty”

Routes to market

How do UK producers sell their wine



Source WineGB

The wine economy

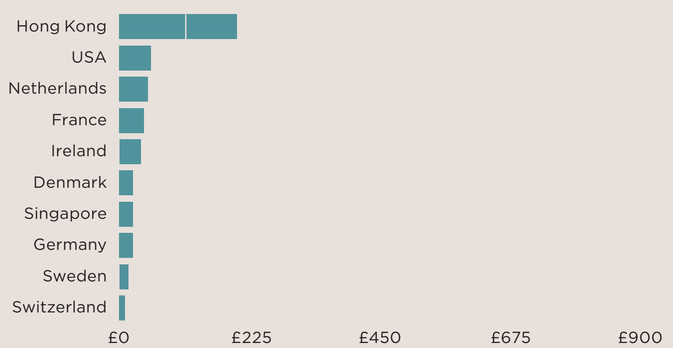
The UK’s love of wine is having a beneficial affect on imports and exports

The UK’s appetite for wine is indisputable; it is the sixth largest market for wine in the world. Domestic supply remains limited and each year the UK imports over £3 billion worth of wine, predominantly from the Mediterranean giants of the industry (France and Italy) and Australasia, making the UK the second largest importer globally.

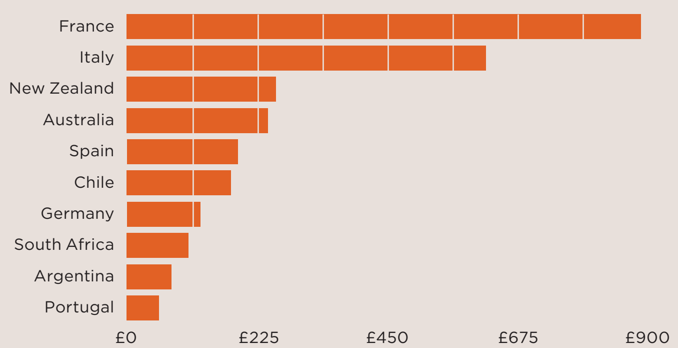
Though the value of wine exported from the UK totalled £574 million in 2017, the sector is currently the fastest growing UK export, having risen by 17% in value and 23% in volume since 2016. Significant markets exist in the Far East with Hong Kong generating 34% of the entire value of UK exports.

Wine production generates £17.3 billion in economic activity and contributes £9.1 billion to the public purse through taxes and duty. Despite being a relatively small presence on the global market, the industry directly employs 170,000 people and a further 100,000 within the supply chain.

Export value 2017 (£m)



Import value 2017 (£m)



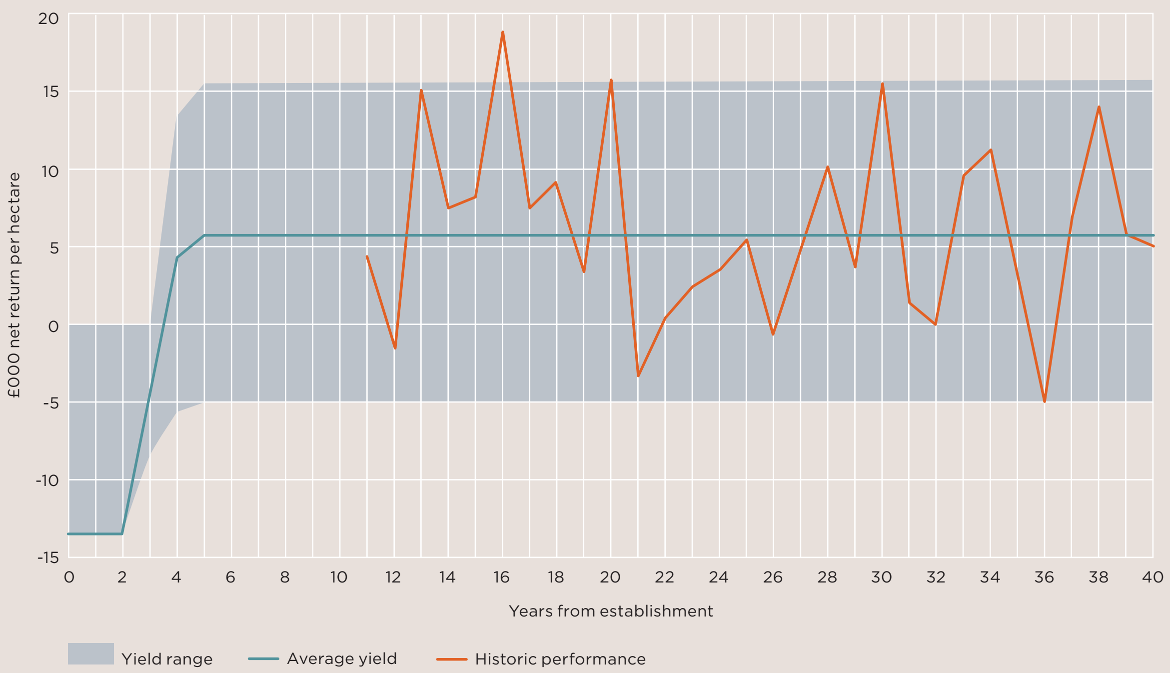
Source WSTA

£3bn
UK imports over £3 billion worth of wine each year

17%
Increase in export value in one year

80
New wineries were launched in 2017

Establishing a vineyard Model of potential returns from a 1 ha vineyard*



- **Year 1 and 2:** Establishment costs. No yield
- **Year 3:** 30% yield
- **Year 4:** 90% yield
- **Year 5 onwards:** 100% potential yield
- **Upper range yield:** Based on 2006 performance
- **Average yield:** Based on previous 10 year average performance
- **Lower range yield:** Based on 2012 performance
- **Historic performance:** Based on 1986-2016 performance

*Including establishment costs but excluding capital costs, land and machinery

Source Nix Handbook, WineGB, Savills Research

Investing in a vineyard
We look at the initial and long-term costs involved

Cost category		Yearly breakdown	
		Cost per year	Payment period
Initial investments**	Capital costs	£1,377	20 Years
	Machinery	£2,430	
	Land	£1,998	
Establishment	Materials	£7,500	2 Years
	Labour	£6,250	
Maintenance	Labour	£1,500	Annual cost throughout lifetime of the vineyard
	Materials	£6,250	
	Harvesting	£1,600	

Inclusive of interest at 5% annualised over 20 years **Source Nix Handbook, Savills Research

In this example we have assumed land costs of around £15,000 per ha, but prices can range between £13,000 to £20,000. Costs, yields and returns will vary depending on the business plan and management. For example, investing in an on-site winery will cost more upfront but it will reduce transportation needs, processing costs and ensure control of the wine production process.

The number of UK wineries is increasing with 80 launched in 2017, an increase on the 64 that opened in 2016. Despite this, supply can outpace capacity at times, as was shown in 2018. The bumper harvest led to some estates renting extra equipment to store and process grapes. Owning a winery will help to mitigate this risk.

> **It took almost 2,000 years before the world finally woke up to the fact that England can produce smashing wines** *Oz Clarke, 2015*

Five steps to a successful vineyard

With informed decisions and good management, a profitable business can be developed

There are many reasons for investing in diversification projects and particularly in wine. With potential for funding dedicated to development and diversification after Brexit, there are plenty of opportunities to help diversify. However, both grapes and the financials remain at the mercy of external factors from weather to politics. But with clear and informed objectives, a robust business plan and quality management, a successful business can be developed.

1 **Market**
Any successful business must know its customers and whether the price they are willing to pay delivers a profitable margin to the business above any costs incurred. Export markets, especially to the Far East, are booming, but needless to say there is a cost that must be paid in order to access these areas. A demand for a product must first be established in the country concerned, which often requires strong investment in marketing in order to access that country's wholesale and retail markets.

2 **Business plan**
Robust interrogation of a vision for an enterprise will have a significant bearing on all elements of a venture, from the site selection and choosing the right variety of grape, to growing and marketing the final product. There are many factors to consider in setting up a vineyard. Owning an on-site processing units, for example, allows finer tuning of the end product, but that comes at a high initial cost and the employment of specialist vintners may be necessary.

3 **Site**
Ideal land for viticulture in the UK often means sheltered, south facing slopes away from the coast, but no higher than 100m above sea level. The quality of the end product relies heavily upon the choice of land. Savills offers a GIS-based site finding service that considers all aspects of the land and local climate to ensure the grape growing conditions are optimised.

4 **Expertise**
The sensitivity of vines to prevailing conditions requires informed, precise and regular attention to minimise risk and maximise opportunity. Partnering or contracting services from an expert third party can deliver the satisfaction of a new undertaking, while avoiding mistakes and delivering a healthy revenue.

5 **Added value**
Diversification into wine production often provides additional opportunities including:

- *Public:* tastings, tours, fruit picking
- *Retail:* farm shops, cafés and restaurants
- *Events:* weddings, photography, corporate
- *Leisure:* holiday homes, spa retreats, wellbeing
- *Grazing:* poultry, sheep, specialist livestock.

16p
The amount spent on wine production of a £5 bottle

8-10m
Sparkling wine bottles produced in next 10 years

1.2%
Any wine with more than 1.2% ABV needs a licence

Rules and regulations

The low-down on the legislation governing viticulture

Land regulations
Converting farmland into vines should not be an issue, but smaller sites that have not been cultivated are protected by Environmental Impact Assessment (EIA) regulations. Changing the use of such land to viticulture will require permission from Natural England through an EIA screening decision.

All vineyards exceeding 0.1 hectares must be registered with Wine Standards within six months of planting. They will then be included in the UK Vineyards Register, produced by the Food Standards Agency.

Both European and UK wine laws are presently applicable, which are predominantly outlined in Regulation (EU) No 1308/2013 and The Wine Regulations 2011 SI No 2936. Note that planning regulations will also apply for any new build or building conversions and advice should be taken.

Tax and duty
Duty is applied as a flat rate on wines between 5.5% alcohol by volume (ABV) and 15% ABV, irrespective of price or quality. An additional 20% VAT applicable to the value of goods plus any duties and naturally increases with the number on the price tag. Wine duty has increased in line with inflation in 2019 amounting to a 3.1% rise.

For the cheapest (£5) bottles of wine, it costs only 16 pence to produce the wine. Unsurprisingly, merchants encourage spending double on the bottle to increase the quality of the wine by more than 18 times. As a proportion of the total value of a bottle, margins remain relatively flat. However, quality should still be sought as UK land yields less than its continental counterpart. A quality product will command a higher price.

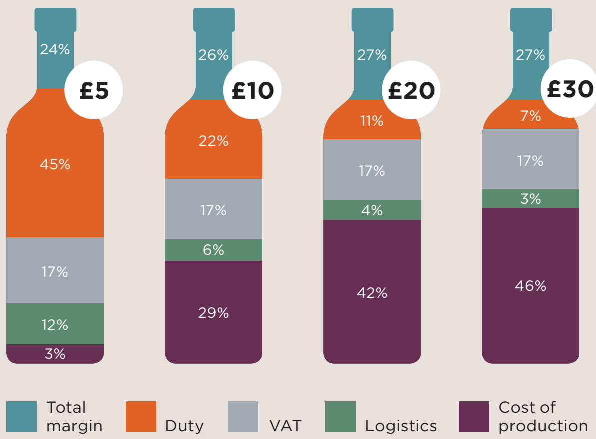
While applied as a flat rate, duty does vary according to ABV and whether the wine is still or sparkling. Generally, more duty must be paid on sparkling varieties and with increasing alcoholic content. Wine duty has increased 28% since 2010 and was singled out in the Autumn Budget as the only alcoholic beverage not frozen at the present rate. If alcohol content exceeds 22% ABV duty must be paid at the same rate as spirits.

Land used to grow grapes is now defined as agricultural land by HMRC. This means the value of the land might be up to 100 per cent free of inheritance tax as part of an estate.

Licensing
Wine can only be produced without a licence if it is not sold. Producing wine with more than 1.2% ABV needs a licence, as does turning still wine into sparkling. Commercial growers or lessees who sell wine still require a licence even if the wine production is handled by a third party.

A licence must be obtained for each site where wine will be produced to sell. Plans of the premises, the location of wine-making equipment on the premises and any identifiable markings on the equipment must also be sent with the application. Once obtained, a producer must keep records, calculate duty and make monthly returns and payments.

Breakdown of the cost per bottle of wine



Source Savills Research

Variation in tax rates

Type	Strength (ABV)	Duty rate (pence per litre)
Still	More than 1.2%, up to 4%	91.68
Still	More than 4%, up to 5.5%	126.08
Still	More than 5.5%, up to 15%	297.57
Still	More than 15%, up to 22%	396.72
Sparkling	More than 5.5%, less than 8.5%	288.10
Sparkling	More than 8.5%, up to 15%	381.15

Source HMRC

OUTLOOK

Sparkling future

Production of English sparkling wine is predicted to more than double in the next 10 years to between eight and 10 million bottles. UK production would then meet a little more than a third of the 27.7 million bottles of Champagne that were shipped to the UK in 2017. As more vines mature across the area under vine, it is likely that competition will increase.

Opportunity lies in exporting. Exports are expected to grow to 25% of production by 2025, whereas only 5% of present production is leaving UK shores. Though ambitious, this target is achievable as long as the nation keeps its reputation for producing a quality product. The benefits of this approach is shown by the Tasmanian wine industry where prioritising quality over quantity has kept prices at a premium.

With appropriate investment and allied trading income opportunities, viticulture offers an attractive idea for UK landowners looking for a new diversification idea.

25%
Exports of English sparkling wine are expected to grow to 25% of production by 2025

Savills Rural Research
We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team

Emily Norton
Rural Research
020 7016 3786
emily.norton@savills.com

Joe Lloyd
Rural Research
020 7299 3016
joe.lloyd@savills.com

Christopher Spofforth
Savills Viticulture
01444 446 064
cspofforth@savills.com

Adrian Matthews
Food and Farming
01722 426 832
amatthews@savills.com