VINEYARD LEASING AN APPEALING LIFESTYLE OPTION

New Zealand wines continue to be positioned in the "super premium" section of supermarket and liquor shelves overseas, and demand continues to grow year on year as the world clamors for a taste of this country's remarkable Sauvignon Blanc, Pinot Noir and emerging varieties.

But the huge growth in global taste for Sauvignon Blanc in particular has put pressure on existing vineyard areas, and leaves wine companies hunting down new areas for grape supply that still fall within the revered "Marlborough" regional distinction.

Options for buying more land are becoming increasingly capital hungry as vineyard prices start to top $300,000 a hectare in the most desirable districts.

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"We are seeing more smaller, and some not so small, vineyard owners in the region opting to contract their vineyards out to large wine companies on a fixed term, fixed lease payment basis," he says.

The region has a high proportion of 8-10ha blocks which 20-30 years ago would have been classed as economic vineyard units.

John says today these could be categorised as lifestyle blocks, often located in some of the region's most desirable grape growing districts.

"The lease arrangement becomes a real win-win for both the land owner and the wine company."

One grower who is in his third season leasing out two vineyard blocks has welcomed the arrangement as a way to help him step out of day to day vineyard management, whilst continuing to enjoy a Marlborough lifestyle and comfortable home among the vines.

"It was a case that I had spent 15 years running the blocks quite happily, but of course we are not getting any younger so this proved to be a good arrangement rather than selling out and still having to find somewhere to live."

Supplying an established family wine label means he has retained close contact with the wine company, whilst enjoying a payment on the 20th of every month from the company.

John Hoare says a typical arrangement will be a "5 and 5" agreement, with a five year lease and five years right of renewal at the end of it.

Payment will generally equate to about 7% of the land value, and can be calculated a number of ways. Some growers will base payments against the Consumer Price Index, and others against the value paid per tonne for the particular grape variety.

In the past year Sauvignon Blanc grapes have averaged $1,600-$1,700 a tonne, and Pinot Noir about $3,000 a tonne.

"All maintenance, upkeep, spraying and pruning is done and often the rates bill will also be charged directly to the wine company."

Typical payments coming through the region in the past season have ranged from $12,000 to $14,000 a hectare depending upon location, grape variety and vine quality.

"And at a 7% rate of return, there is more value for these owners to keep their capital in the land rather than sell up and see it only earning 3% in the bank."

Clive Jones, Nautilus Estate winemaker and New Zealand Winegrowers board member said there remains a strong demand for grower supplied grapes in the region, given the high capital cost to wine companies to invest in new vineyard estates.

"And often having a variety of growers provides the variety of grapes you may require for that particular wine."

While leasing was not something his company was currently engaged in he had noticed it becoming more common in the region.

"From an owners point of view it means they do not have to worry about the management of the vineyard, it is a passive income, meaning you may not make quite as much as if you were running it yourself, but for some that is a preferred option."

With an aging vineyard owner population and the thirst for high quality New Zealand wines growing beyond the traditional markets of United Kingdom, USA and Australia, prospects for smaller vineyard owners to secure a supply outlet remain positive.

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"For people who may have dreamt of setting up a vineyard and having their own label, the romantic notion may have proven a tough one to fulfil. But leasing to a company already processing and marketing can provide far greater peace of mind and a very reasonable return," says John Hoare.

Bayleys national country manager Duncan Ross said with an aging vineyard owner population growers were seeking alternatives to a complete sell down of their home and vineyard asset.

"The new leasing options will enable people to stay on for a lot longer now that the stress of managing the properties can be eliminated, and they still retain a reasonable income."