Is there a “wine premium” in rural land values?

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To what degree might wine grape cultivation contribute to rural land values? The value of rural land in a geographic area (such as a county) should reflect the present discounted value of future income streams from farming activities and (as yet unrealized) potential residential use. Once one has accounted for all of a geographic area’s relevant characteristics related to future income generating potential on rural land (e.g., soil types, climate, distance to markets and likely future demographic trends), it would be reasonable to presume that per-hectare land values should be predictable in a cross-section without reference to the specific composition of agricultural activities taking place at a given time. This is because, if land use decisions are economically optimal, those same characteristics should be determinant of the particular profit-maximizing crop mix at a specific place and point in time. There is, however, the possibility that a particular type of land use, such as wine grape cultivation, might be associated with both immobile investments, the value of which should be bid into land values, and with other activities, such as wineries and tourism, which have external effects on the value of all land in the surrounding area. In such a case, land use composition could offer additional information regarding area-wide land values beyond that of the area’s intrinsic characteristics of climate, market access, soil types, etc. In this study, information from the Agricultural Census regarding the distribution of farm numbers and land use throughout Chile is combined with a new dataset on land values gathered from recorded land transactions in a sample of land registries covering almost all of the country’s agroecological regions for the years 1980, 1990, 1997 and 2007. Median per-hectare (real) land values were obtained for each municipality, producing a balanced panel of 89 municipalities for four years. Controlling for the municipality’s climate, market potential, rural-urban mix, location in major agricultural soil zones, and the degree of irrigation, our results show that rural per-hectare land values rise with the share of a municipality’s cultivated land in vineyards (but not with any other farm activity, such as fruit production, which is also associated with immobile investments, such as tree plantations). This correlation is found to be both statistically and economically significant, suggesting, if all relevant intrinsic characteristics to land have been included, that investments and related activities associated with vineyards (wine-making, wine tourism) are contributing to municipal rural land values in addition to the “intrinsic” characteristics of the land, such as climate, soils, irrigation infrastructure, distance to markets, or potential for future residential use.