

The Value of Terroir: Hedonic Estimation of Vineyard Sale Prices*

Robin Cross^a, Andrew J. Plantinga^b and Robert N. Stavins^c

Abstract

We examine the value of terroir, which refers to the special characteristics of a place that impart unique qualities to the wine produced. We do this by conducting a hedonic analysis of vineyard sales in the Willamette Valley of Oregon to ascertain whether site attributes, such as slope, aspect, elevation, and soil types, or designated appellations are more important determinants of price. We find that prices are strongly determined by sub-AVA appellation designations, but not by specific site attributes. These results indicate that the concept of terroir matters economically, although the reality of terroir – as proxied for by locational attributes – is not significant. (JEL Classification: C2, Q11)

I. Introduction

Wine producers and enthusiasts use the term “terroir,” from the French *terre* (meaning land), to refer to the special characteristics of a place that impart unique qualities to the wine produced. The Appellation d’Origine Contrôlée (AOC) system in France, and similar systems adopted in other major wine-producing countries, are based upon the geographic location of grape production, and are therefore predicated on this notion of terroir. Under a parallel U.S. system, production regions are designated as American Viticultural Areas (AVAs), with finer

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^a Department of Agricultural and Resource Economics, Oregon State University, Corvallis, OR 97331. e-mail: robin.cross@oregonstate.edu

^b Department of Agricultural and Resource Economics, Oregon State University, Corvallis, OR 97331. e-mail: plantinga@oregonstate.edu

^c John F. Kennedy School of Government, Harvard University, 79 John F. Kennedy Street, Cambridge, Massachusetts 02138, National Bureau of Economic Research and Resources for the Future. e-mail: robert_stavins@harvard.edu

geographical designations known as sub-AVAs. Such designations allow wineries to identify the geographical origin of the grapes used in producing their wines, and – equally important – seek to prevent producers outside the AVA from making false claims about the nature and origin of their wines.

What is the value of terroir in the American context? Does the “reality of terroir” – the location-specific geology and geography (including climate) – predominate in determining the quality of wine? Does the “concept of terroir” – the location within an officially named appellation – impart additional value to grapes and wine? More to the point, does location within such an appellation impart additional value to vineyards?

The central question we address is whether measureable site attributes – such as slope, aspect, elevation, and soil type – or appellation designations are more important determinants of vineyard prices.¹ We do this by conducting a hedonic price analysis to investigate sales of vineyards in Oregon’s Willamette Valley, one of the most important wine-producing regions in the United States.²

How should site attributes and sub-AVA designations influence vineyard prices? If site attributes significantly affect wine quality and if consumers are able to discriminate such quality, then vineyard prices would depend on site attributes alone,³ and AVA designations would be redundant. Alternatively, consumers might not be able to discriminate among wines perfectly and might use AVA designations as signals of average quality of wines from respective areas, and/or might derive utility directly from drinking wines which they know to be of particular pedigree. In this intermediate case, site attributes and AVA designations would influence vineyard prices, with the variables for site attributes measuring how producers value intra-AVA differences in vineyard characteristics. Presumably, producers attach premiums to site attributes that enhance wine quality, provided that consumers can perceive and are willing to pay for such quality differences.

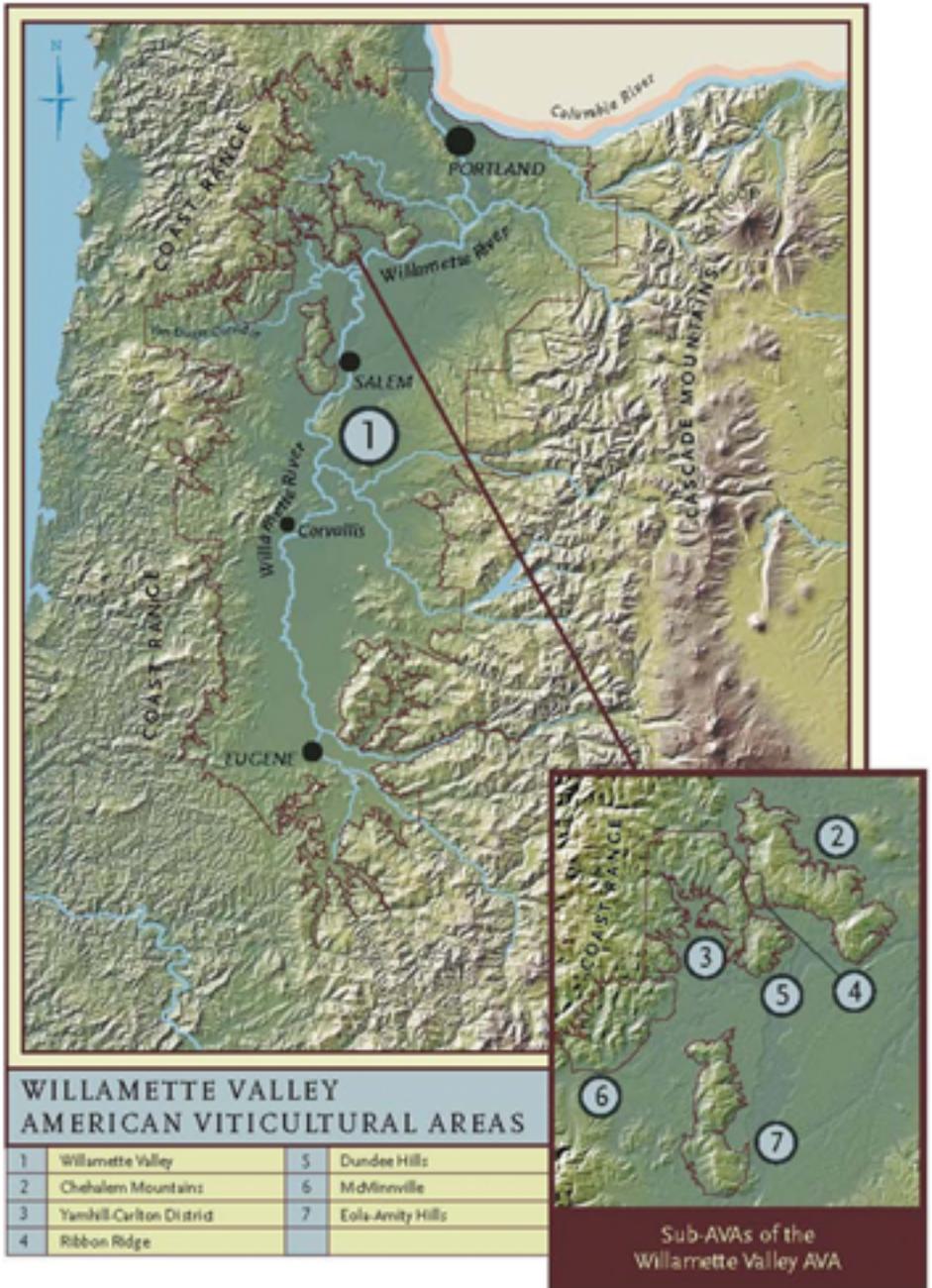
What if, at the extreme, variation in vineyard prices is explained completely by AVA designations (that is, site attributes are irrelevant)? This would indicate that terroir matters economically – as a concept, though not as a fundamental reality. Producers might recognize the value of the AVA designation because they know that consumers will pay more for the experience of drinking wine from designated

¹The notion of terroir sometimes extends beyond natural endowments to encompass the history and culture of a place, but we use a narrower and more common definition of terroir focused on physical attributes of the location (Gergaud and Ginsburgh, 2008).

²The Willamette Valley is designated as an AVA. Within the valley, there are six sub-AVAs: Chehalem Mountains, Yamhill-Carlton District, Ribbon Ridge, Dundee Hills, McMinville, and Eola-Amity Hills (Figure 1).

³Wine quality is affected not only by site attributes, but also by the quality of growing stock, as well as vineyard management, and the skills and resources of the winemaker.

Figure 1
The Sub-AVAs of the Willamette Valley, Oregon



Source: Oregon Wine Board. Used with permission.

areas.⁴ But the fact that site attributes are unimportant suggests that consumers cannot discern quality differences. Any appreciation they might express for an area's terroir would essentially be founded on reputation, not reality.

In the next part of the paper, we discuss some related research from the wine economics literature. Then, in section III, we describe the data we employ, as well as our estimation strategy. In section IV, we present our results plus some robustness checks. Section V concludes.

II. Previous Literature

Our analysis is related to and builds upon previous work by others. In one recent study, Gergaud and Ginsburgh (2008) find that site attributes of vineyards in the Haut-Médoc appellation in Bordeaux have no effect on wine prices or ratings, after controlling for producer differences in wine-making technology. Our study builds on this work by examining – in addition to site characteristics – the value assigned to appellation designations. Further, we are able to measure site characteristics more precisely than Gergaud and Ginsburgh by using GIS-based information to develop highly detailed physiographic profiles of each parcel.

In another recent study, Ashenfelter and Storchmann (2010) investigate the effects of climate on vineyards in the Mosel Valley. As in our study, the authors have fine-scale data on vineyard characteristics. They find that site characteristics – including slope, orientation, soil types, soil depth, and altitude – as well as solar radiation are significant determinants of vineyard quality. We do not include climate variables in our analysis, because of trivial variation in rainfall, humidity, and wind across the relevant portion of the Willamette Valley, but our site attribute variables proxy for the amount of solar radiation received by vineyards.

An important similarity and difference with our study concerns respective dependent variables. Gergaud and Ginsburgh (2008) and Ashenfelter and Storchmann (2010) employ measures that are based on wine prices or ratings. Our dependent variable, vineyard sale prices, is preferable in the context of our investigation into the value of terroir, because it avoids potentially confounding influences on our results of non-vineyards inputs into wine production (such as labor and wine-making techniques). Provided that these inputs are variable and reproducible, profit-maximization implies that the optimal levels of these inputs are implicit functions of fixed and non-reproducible vineyard attributes and input and output prices that are constant across the vineyards in our sample. As such, we can

⁴ Alternatively, buyers might be less informed than sellers about how vineyard attributes affect wine quality, and, therefore, use the AVA designation as a signal of quality. Or producers may bid up the value of vineyards located in designated appellations because there is prestige associated with owning vineyards in such areas.

estimate the implicit prices of vineyard attributes using a simple hedonic equation for vineyard sales. Previous authors have estimated similar models in order to study the effects of climate change on U.S. agriculture (e.g., Mendelsohn *et al.*, 1994).

As we suggest above, if consumers have limited information about specific vineyards or are unable to judge differences in quality among wines, then they might use appellation designations as signals of quality of wines from respective areas. In fact, the results of many blind taste tests indicate that wine consumers have very limited ability to distinguish intrinsic qualities of wine (sweetness, acidity, tannins, etc.), and instead judge quality by relying on extrinsic signals, such as price, origin, and wine-maker reputation.

For example, Veale and Quester (2008) found that tasters' perceptions of quality were strongly correlated with price and country of origin, but not with intrinsic qualities related to taste. Similarly, Goldstein *et al.* (2008) found that when price information is withheld, non-expert tasters show no preference for more expensive wines and even show a slight preference for less expensive wines.⁵

III. Data and Estimation Strategy

A. *Dependent Variable for Hedonic Estimation: Vineyard Value*

In order to investigate the relationship between vineyard sales prices, site attributes, and appellation designation, we employ a new data set on vineyard sales provided by Northwest Farm Credit Services, a lending institution specializing in agriculture. The database includes the universe of 104 sales between 1995 and 2007 of properties in the Willamette Valley that included vineyards and vinelands.⁶ In addition to total sale price, size, and location of property, sales records include an appraiser's estimate of the value of non-vineyard assets, such as dwellings and other buildings, winery equipment, and non-vineyard land. We subtract the estimated values of these non-vineyard assets from the total sale price to obtain the value of vineyards in each sale.

A remaining complication is that vineyards differ in terms of grape varieties planted, whether rootstocks are resistant to phylloxera, and type of trellis system in

⁵Tasters with some wine training demonstrated a non-negative relationship between price and enjoyment. However, Hodgson (2009a, 2009b) has found that even wine judges have difficulty consistently evaluating wines. Using data on over 4,000 wines entered in 13 competitions, Hodgson (2009a) found that the probability of winning a Gold medal in one competition was statistically independent of winning a Gold medal in another competition. Further, Hodgson (2009b) found that judges at the 2009 California State Fair commercial wine competition were inconsistent in their evaluations.

⁶Vinelands are areas that can be developed for vineyards. We use the term "vineyards" to refer collectively to vineyards and vinelands.

place. This heterogeneity accounts for some portion of the difference in sale prices. Because terroir relates exclusively to non-transferable attributes of vineyards, such as soils, elevation, slope, and climate, we also subtract from the vineyard value the appraiser's estimate of the value of all vineyard enhancements. This leaves us with the estimated price of bare land for vineyards. After converting these values to 2007 dollars using the Consumer Price Index, and dividing by the area of vineyards, we obtain the real per-acre vineyard value for each property, denoted *vinevalue*. The log of this variable is the dependent variable in our hedonic model.

B. Vineyard Attributes

The sales records from Northwest Farm Credit Services provide information about average characteristics of vineyards included in each sale. We develop more precise measures, using GIS-based information on slope, aspect, elevation, and soils. The location of each parcel is determined from tax lot boundaries and matched to GIS maps of physiographic variables.⁷

Parcels are divided into 10-meter pixels and each pixel is classified according to 14 slope, 16 aspect, 86 elevation, and 8 soil group categories. For example, slope categories are 2–4 degrees, 4–6 degrees, and so forth. Elevation categories are 150–159 feet, 160–169 feet, and so on. Because the number of categories exceeds the number of observed sales, we combine them following conventional wisdom about which vineyard attributes are most favorable or unfavorable.⁸ We then compute the percentages of each parcel in each of these aggregated categories, and use these as independent variables in our hedonic regressions. The definitions of all variables are found in Table 1.

As discussed above, the elevation, slope, and aspect variables determine the amount of solar radiation received at each site and, thus, are proxies for one important component of climate. We did not include additional controls for

⁷The tax lot information was obtained from county tax assessors' offices. Contour information was derived from USGS National Elevation Dataset data at 10 and 30 meter scales (<http://seamless.usgs.gov/ned1.php>). Soil information came from the USDA/NRCS Soil Data Mart (<http://soildatamart.nrcs.usda.gov/>).

⁸We define three elevation variables: *best* (250–450 feet), *possible* (200–250 feet, 450–650 feet), and *too low or too high* (<200 feet, >650 feet), denoted *bestelev*, *posselev*, and *lowhighlev*, respectively. Vineyards that are too high or too low face greater risk of frost and low temperatures that inhibit ripening. South-facing slopes are regarded as preferable. We define the aspect variables as *south* (*south*), southeast or southwest (*southew*), east or west (*eastwest*), and north (*north*). Jory-Nekiah and Willakenzie-Hazelair are considered the best soils for producing pinot noir, and so we define *bestsoil* as the share of the parcel with either of these soils. The two other soil variables are *goodsoil* (Amity-Dayton, Bellpine, Laurelwood, or Yamhill soils) and *poorsoil* (Willamette-Woodburn and other soils). Finally, vineyards that are too flat (<2 degrees) tend to be poorly drained and those that are too steep (>12 degrees) are difficult to harvest. We define *bestslope* as the percentage of the parcel with slopes between 2 and 12 degrees and *flatsteep* as the residual.

Table 1
Variable Definitions

<i>Variable</i>	<i>Definition</i>
vinevalue	real per-acre vineyard value
vineacres	area of the parcel in vineyards, in acres
bestelev	share of the parcel with best elevation (250–450 feet)
posselev	share of the parcel with possible elevation (200–250 feet, 450–650 feet)
lowhighelev	share of the parcel with low (< 200 feet) or high (> 650 feet) elevation
south	share of the parcel with south aspect
southeast	share of the parcel with southeast or southwest aspect
eastwest	share of the parcel with east or west aspect
north	share of the parcel with north aspect
bestsoil	share of the parcel with best soils (Jory-Nekiah, Willakenzie-Hazelair)
goodsoil	share of the parcel with good soils (Amity-Dayton, Bellpine, Laurelwood, Yamhill)
poorsoil	share of the parcel with poor soils (Willamette-Woodburn, others)
bestslope	share of the parcel with the best slope (2–12 degrees)
flatsteep	share of the parcel that is flat (< 2 degrees) or steep (> 12 degrees)
percentvine	share of the parcel that is in vineyards
eola	indicator variable equal to 1 if the parcel is in Eola-Amity Hills sub-AVA; 0 otherwise
mcminnville	indicator variable equal to 1 if the parcel is in McMinnville sub-AVA; 0 otherwise
yamhill	indicator variable equal to 1 if the parcel is in Yamhill-Carlton sub-AVA; 0 otherwise
dundee	indicator variable equal to 1 if the parcel is in Dundee Hills sub-AVA; 0 otherwise
chehalem	indicator variable equal to 1 if the parcel is in Chehalem Hills sub-AVA; 0 otherwise
nosub	indicator variable equal to 1 if the parcel is not in a sub-AVA; 0 otherwise
saledate	indicator variable equal to 1 if sale occurred after the official designation of the sub-AVA; 0 otherwise.
distancesub	distance to nearest sub-appellation, in feet; 0 for parcels in a sub-AVA

rainfall, humidity, and wind because these factors exhibit little variation within the Willamette Valley.

We conducted sensitivity analyses on the site attribute variables. Because there are other reasonable ways to specify the categories discussed above, we explored alternative definitions, and found that our results were not sensitive to these changes. Another issue with the site attribute variables is that they are defined for the entire property, not only the vineyard portion of the parcel. Unfortunately, we cannot refine these measures, because we do not know exactly where vineyards are located within parcels. Instead, we conduct two robustness tests, discussed below, to explore whether our results are affected by this measurement error. For this purpose, we construct a variable, denoted *percentvine*, measuring the percentage of the parcel in vineyards.

In addition to the site attribute variables, we construct a variable for the area of the vineyards (*vineacres*) and indicator variables for the location of a parcel within a sub-AVA (*eola* for Eola-Amity Hills, *mcminnville* for McMinnville, *yamhill* for Yamhill-Carlton, *dundee* for Dundee Hills, *chehalem* for Chehalem Hills, and *nosub*

if the parcel is outside these sub-AVAs).⁹ Parcels outside of sub-AVAs are demarcated as being in the Willamette Valley AVA. It is important to acknowledge that, although the Willamette Valley AVA was established in 1984, the sub-AVA designations were not officially adopted until 2005 and 2006. Prior to this time, the areas that would later be designated as sub-AVAs were well recognized by wine producers, and it was common practice to label the origin of wines using the same geographical terms.¹⁰ We construct a variable, *saledate*, equal to 1 if the sale occurred after the respective sub-AVA designation became official and 0 otherwise, and use it to test for changes in the effects of the sub-AVA designation.

Finally, for use in robustness tests, we computed the straight-line distance from each parcel to the nearest sub-AVA. This variable, denoted *distancesub*, equals 0 if the parcel is within a sub-AVA.

Summary statistics for all variables are presented in Table 2. The average unlogged price for vineyards (*vinevalue*) is about \$10,000 per acre, with prices ranging from \$2,500 to \$42,000 per acre. Given that our sample includes only

Table 2
Summary Statistics

<i>Variable</i>	<i>Mean</i>	<i>Standard error</i>	<i>Minimum</i>	<i>Maximum</i>
vinevalue	10149	5917	2500	42000
vineacres	43.48	46.53	7	400
bestelev	0.470	0.392	0	1
posselev	0.372	0.330	0	1
lowhighlev	0.158	0.312	0	1
south	0.313	0.226	0	0.994
southew	0.338	0.161	0.006	0.995
eastwest	0.181	0.123	0	0.560
north	0.168	0.176	0	0.707
bestsoil	0.345	0.418	0	1
goodsoil	0.305	0.377	0	1
poorsoil	0.350	0.374	0	1
bestslope	0.873	0.141	0	1
flatsteep	0.127	0.141	0	1
percentvine	0.681	0.214	0.162	1
eola	0.125	0.332	0	1
mcminnville	0.029	0.168	0	1
yamhill	0.163	0.372	0	1
dundee	0.231	0.423	0	1
chehalem	0.144	0.353	0	1
nosub	0.308	0.464	0	1
saledate	0.171	0.379	0	1
distancesub	36430	86750	0	355833
Number of observations = 104				

⁹ We have no observations of sales within the Ribbon Ridge sub-AVA.

¹⁰ For example, in 2004, Archery Summit labeled their Red Hills Estate wine “Dundee Hills Pinot Noir.”

parcels with vineyards, we must have within-sample variation in site attributes if we hope to measure effects of terroir. The statistics in Table 2 reveal that 31.3, 47.0, 34.5, and 87.3 percent of the land within our sample of parcels, respectively, faces directly south, and has the best elevation, soils, and slopes. At the other extreme, 16.8, 15.8, 35.0, and 12.7 percent of the land, respectively, is in the least desirable categories for aspect, elevation, soils, and slope. With the possible exception of the slope variable, these statistics suggest that our sample reflects a significant range of physiographic conditions.

IV. Results and Robustness Tests

For our basic model, we regress the log of *vinevalue* on *vineacres*, the square of *vineacres* (*sqvineacres*), site attributes, sub-AVA designations, and a constant term. The omitted variables are *lowhighelev*, *north*, *poorsoil*, *flatsteep*, and *nosub*. Because these are the least desirable categories, we expect the coefficients on the included site attribute and sub-AVA variables to be positive.

The results, in Table 3, reveal that most of the estimated coefficients on the site attribute variables are positive, but none are significantly different from zero. The smallest *p*-value is 0.311, and none of the estimates are even marginally significant.¹¹ In contrast, four of the five estimated coefficients for sub-AVA are

Table 3
Estimation Results: Basic Model

<i>Variable</i>	<i>Estimate</i>	<i>Standard error</i>	<i>p-value</i>
constant	8.582	0.3328	0.000
vineacres	-0.005	0.0021	0.013
sqvineacres	0.000014	0.000006	0.016
bestelev	0.157	0.1539	0.311
posselev	0.130	0.1641	0.430
south	0.202	0.2684	0.453
southew	-0.088	0.2673	0.743
eastwest	0.270	0.4710	0.567
bestsoil	-0.030	0.1565	0.850
goodsoil	0.048	0.1369	0.725
bestslope	0.075	0.2856	0.792
eola	0.438	0.1382	0.002
mcmminville	0.154	0.2303	0.504
yamhill	0.529	0.1350	0.000
dundee	0.852	0.1425	0.000
chehalem	0.482	0.1246	0.000

Dependent variable = log of vinevalue
Number of observations = 104
Adj. R-squared = 0.422

¹¹ The results do not change appreciably if we use robust standard error estimates.

significantly different from zero at better than the 1% level. Parcels within the Eola-Amity Hills, Yamhill-Carlton, Dundee Hills, and Chehalem Hills sub-AVA sell for significantly more than parcels without a sub-AVA designation. In 2007 dollars, the premiums associated with location within these sub-AVAs were, respectively, \$2,933, \$3,721, \$7,163, and \$3,306 per acre.

Pairwise *F*-tests indicate that the coefficient on *dundee* is different from those on *eola*, *yamhill*, and *chehalem*, but that the coefficients on *eola*, *yamhill*, and *chehalem* are statistically indistinguishable from one another. The coefficients on parcel size indicate that the per-acre price falls as the parcel size increases, but at a diminishing rate. Finally, the adjusted R^2 is 0.422, reasonably high for cross-section data.

As mentioned above, the sub-AVA designations did not become official until 2005 and 2006. For the Eola-Amity Hills, Yamhill-Carlton, and Dundee Hills sub-AVAs, our sample includes sales that occurred before and after the official designation. To test for a corresponding shift in the sub-AVA premium in these cases, we interact *eola*, *yamhill*, and *dundee* with *saledate* and add these variables to the basic model. We find that the coefficient estimates are positive and significant in all cases, indicating a rise in the premiums following the official adoption of the sub-AVAs.¹²

Why are the impacts of site attributes on sales price insignificant? As mentioned above, the site attribute variables are measured over the entire parcel, not just the vineyard portion, which may decrease the precision of these variables and explain why the estimated coefficients are not significantly different from zero. To explore this possibility, we restrict the sample to parcels that are at least 50 percent vineyards (*percentvine* ≥ 0.50). For the entire sample, an average of 68 percent of the parcel area is vineyards, with a minimum of 16 and a maximum of 100 percent (Table 2). With a 50 percent cut-off, we still have 83 observations with which to estimate the model. The results (not reported, but available upon request) show little change from the basic model. None of the coefficient estimates for site attributes are significantly different from zero, and the estimates for sub-AVAs have similar magnitude and significance level. Qualitatively, the findings remain the same for cut-off values of 68% and 75%. We also re-estimate the basic model with *percentvine* entered as an independent variable in the basic model. The associated coefficient is not significantly different from zero.

Another possible explanation for the insignificance of the site attribute variables is that their effects could be masked by the sub-AVA designations. The sub-AVA designations are supposed to be based on the area's terroir. In this case, the sub-AVA variables would measure the average effect of the site attributes of parcels

¹² The Eola-Amity Hills premium increases from \$590 to \$5,621 per acre, the Yamhill-Carlton premium increases from \$2,186 to \$7,064 per acre, and the Dundee Hills premium increases from \$4,440 to \$15,474 per acre. The full set of results is available from the corresponding author upon request.

within the sub-AVA, and dropping the sub-AVA variables would increase the explanatory power of the site attributes. We find this result in the case of the *bestsoil* variable, which has a positive and significant (5% level) coefficient when we omit the sub-AVA variables (Table 4).

Table 4
Estimation Results: No Sub-AVA Variables

<i>Variable</i>	<i>Estimate</i>	<i>Standard error</i>	<i>p-value</i>
constant	8.822	0.3842	0.000
vineacres	-0.008	0.0024	0.001
sqvineacres	0.000018	0.000007	0.009
bestelev	0.255	0.1766	0.152
posselev	-0.009	0.1933	0.961
south	0.102	0.3101	0.743
southew	-0.189	0.3104	0.544
eastwest	0.337	0.5298	0.526
bestsoil	0.494	0.1443	0.001
goodsoil	0.242	0.1422	0.093
bestslope	0.192	0.3370	0.571
Dependent variable = log of vinevalue			
Number of observations = 104			
Adj. R-squared = 0.165			

Further investigation reveals that the *bestsoil* variable is highly correlated with the indicator variable for the Dundee Hills sub-AVA (*dundee*) but not with the other sub-AVA variables.¹³ Thus, the model in Table 4 does not identify whether higher vineyard prices are the result of soils or location within the Dundee Hills sub-AVA. We split the sample into two groups – parcels inside and outside the Dundee Hills sub-AVA – and estimate separate models with only the site attribute variables. In both cases, the coefficient on the *bestsoil* variable is insignificant, suggesting that it is the Dundee Hills location, and not better soils, that raises vineyard prices.¹⁴

A further check is to see if there is variation in the site attributes within sub-AVAs. If not, then the effects of the site attributes will be captured by the sub-AVA variables. Table 5 reports the standard deviation of the site attributes for the whole sample and for parcels within each sub-AVA. The statistics indicate similar variation in site attributes within and across sub-AVAs.

¹³ The simple correlation coefficient for *bestsoil* and *dundee* is 0.69.

¹⁴ There are 24 parcels inside the Dundee Hills sub-AVA and 80 parcels outside. With these sub-samples, the *p*-values for the *bestsoil* variable are, respectively, 0.81 and 0.90. Although the mean of *bestsoil* is higher for parcels inside the Dundee Hills sub-AVA (0.87 compared to 0.19), there is considerable variation in the *bestsoil* variable within the sub-samples. In both cases, *bestsoil* has a standard deviation of about 0.30 and minimum and maximum values of 0 and 1, respectively.

Table 5
Standard Deviation of Site Attributes by Sub-AVA

<i>Variable</i>	<i>All</i>	<i>Eola</i>	<i>McMinnville</i>	<i>Yamhill</i>	<i>Dundee</i>	<i>Chehalem</i>	<i>Nosub</i>
bestelev	0.392	0.287	0.405	0.249	0.370	0.416	0.390
posselev	0.330	0.267	0.306	0.159	0.360	0.330	0.374
lowhighelev	0.312	0.031	0.166	0.166	0.424	0.259	0.305
south	0.226	0.138	0.249	0.209	0.335	0.169	0.185
southew	0.161	0.095	0.078	0.172	0.221	0.093	0.154
eastwest	0.123	0.104	0.102	0.084	0.144	0.141	0.113
north	0.176	0.190	0.097	0.224	0.145	0.143	0.170
bestsoil	0.418	0.305	0.007	0.213	0.292	0.311	0.313
goodsoil	0.377	0.162	0.425	0.314	0.133	0.433	0.344
poorsoil	0.374	0.326	0.432	0.215	0.218	0.461	0.372
bestslope	0.141	0.077	0.019	0.131	0.115	0.109	0.188
flatsteep	0.141	0.077	0.019	0.131	0.115	0.109	0.188
Number of observations = 104							

Finally, if the terroir of a sub-AVA has important influences on wine quality, then parcels that are outside, but close to, sub-AVAs should be valued more than parcels that are farther away. We re-estimate the basic model with the variable *distancesub* included. This corresponding *p*-value is 0.45.¹⁵

Our results indicate that the significant premiums associated with sub-AVA designations are unrelated to observable site attributes. An alternative explanation is that bottle prices for wines from sub-AVAs command higher prices (for reputational reasons), which bids up the prices of sub-AVA vineyards. To examine this possibility, we summarized data on 2006 Pinot Noir bottle prices for the Willamette Valley AVA and for each sub-AVA. From the *Wine Spectator* database, we obtained 243 observations, and from the *Wine Advocate* (Robert Parker) database 310 observations. In Table 6, we report the vineyard premiums (in 2007 dollars), based on the results from Table 3, plus the average bottle prices (in 2007 dollars) from our two wine data sources. The rankings of vineyard premiums are broadly consistent with bottle rankings. McMinnville and Willamette Valley are at the bottom in all rankings and Dundee Hills is at or second from the top. Of course, the bottle prices are also affected by the skills and reputations of wine-makers, and so these results are, at most, suggestive of correlation between vineyard and bottle prices.¹⁶

¹⁵ A similar result is obtained when we drop two observations for parcels that are outside but closest to the McMinnville sub-AVA. There is no premium associated with being inside this sub-AVA. Full results are available from the corresponding author upon request.

¹⁶ Because there is considerable variation in bottle prices within sub-AVAs, we cannot reject the null hypothesis that average bottle prices are the same across sub-AVAs.

Table 6
External Evidence on Sub-AVA Rankings

<i>Our results</i>	<i>Wine Spectator</i>			<i>Robert Parker</i>	
<i>sub-AVA</i>	<i>Vineyard premium</i>	<i>sub-AVA</i>	<i>Avg. bottle price</i>	<i>sub-AVA</i>	<i>Avg. bottle price</i>
Willamette Valley McMinnville	\$0	McMinnville	\$40.40	McMinnville	\$42.60
McMinnville	\$0	Willamette Valley	\$46.30	Willamette Valley	\$47.40
Eola-Amity Hills	\$2,933	Yamhill-Carlton	\$48.50	Yamhill-Carlton	\$48.20
Chehalem Mountains	\$3,306	Eola-Amity Hills	\$51.30	Eola-Amity Hills	\$49.90
Yamhill-Carlton	\$3,721	Chehalem Mountains	\$52.00	Dundee Hills	\$54.20
Dundee Hills	\$7,163	Dundee Hills	\$58.70	Chehalem Mountains	\$54.60

Note: The vineyard premium is the increment in sale price (in 2007 dollars per acre) resulting from location inside a sub-AVA

V. Conclusions

We have estimated a hedonic model of vineyard prices in Oregon to examine whether they vary systematically with designated appellation, after controlling for site attributes. Despite using precise measures of site attributes, we do not find evidence of a significant effect of these variables on vineyard prices, and a series of robustness tests does not alter this finding. But, we do find that vineyard prices are strongly determined by whether or not parcels are inside specific sub-AVAs. The delineation of sub-AVAs is intended to capture the unique characteristics of a geographical area as they relate to grape production.¹⁷ That is, sub-AVAs are supposed to reflect the area's terroir. Our finding that the physical characteristics of vineyards are not priced implicitly in the land market raises questions about whether sub-AVA designations have a meaningful connection – in reality – with terroir.

Nevertheless, our results make clear that the concept of terroir matters economically. Buyers and sellers of vineyard parcels in the Willamette Valley of Oregon attach a significant premium to the sub-AVA designations, ranging from about \$3,000 per acre for Eola-Amity Hills, Chehalem Mountains, and Yamhill-Carlton, to over \$7,000 per acre for Dundee Hills. One possibility is that buyers are less informed than sellers about how the attributes of a vineyard will affect wine quality and, therefore, rely on sub-AVA designations as quality signals. Either way, consumers are evidently willing to pay more for the experience of drinking wines

¹⁷The Bureau of Alcohol, Tobacco, and Firearms, which designates AVAs in the United States, defines a viticultural area as, "a delimited, grape-growing region distinguishable by geographical features."

from these areas. While they may not discriminate among wines in terms of their intrinsic qualities, consumers are responding to extrinsic qualities of wines, such as price and area of origin.

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