

Luxury Retailⁱⁿ Spain²⁰²³



Tourism

the driving force behind luxury

Within Europe, Spain leads the ranking in luxury tourism in terms of percentage of GDP, contributing 2% of the nation's total, more than double the European average of 0.9%. This tourism model, also known as high-impact tourism, is predicted to see a threefold revenue increase in the next decade (according to forecasts from the High Impact Tourism report by Bain & Company).

Despite leading in luxury tourism, Spain is the European market where high-impact tourism generates the least value. The average luxury tourist spends €860 per day in Spain, while the daily expenditure in Germany is close to €1,000, in the UK and France around €2,000, and in Italy around €6,000.

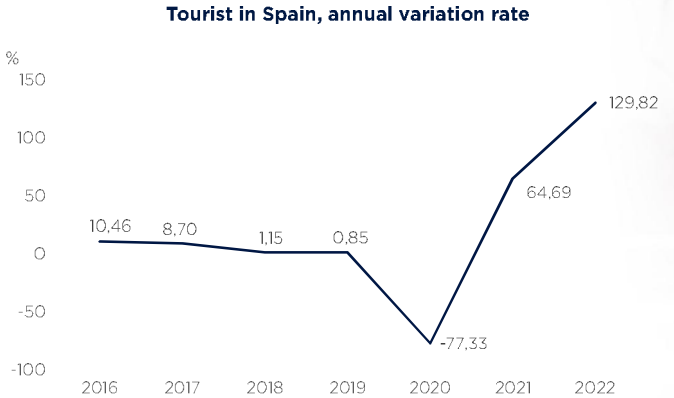
Madrid, Barcelona, and Marbella are Spain's top luxury destinations. Data from Asociación Española del Lujo reveals that luxury tourists prefer personalised plans with round-the-clock assistance, spending between €6,000 to €11,792 on average per person per trip, and usually visiting at least three times a year. (Source:

The luxury traveller in Spain carried out by the Observatorio Nacional del Turismo Emisor (Observatur))

Luxury tourist expenditures in Spain are mainly on shopping (50%), followed by accommodation (26%), and dining (20%).

Luxury travel preferences have shifted over time. From valuing personalisation, exclusivity, and privacy in 2019, the emphasis post-COVID is now on healthcare provisions, guaranteed refunds in the case of restrictions, the possibility of combining luxury holidays with remote work, and ecotourism.

For Spain to maximise its luxury tourism potential, a comprehensive tourism plan is vital. The focus should be on reinforcing certain strategic levers, including the concept of "high-end sun and beach", cultural tours, sustainable experiences, enhanced transport network, and the expansion of the luxury retail and hotel sectors.



Source: INE

Economy

In Q2 2023, Spain's economy grew modestly by 0.4%. August saw an inflation jump to 2.6% driven by fuel price hikes, while unemployment continues its downward trend, dropping to its lowest level since 2008 at 11.6%.

Between May and July, the European Central Bank consistently raised its interest rates by 25 basis points per month, hitting 4.25%. The July 2023 one-year Euribor was 4.15%, while the ten-year government bond rate remained at 3.5%.

In Q1 2023, hikes in pensions and wages led to an 11.8% rise in household disposable income, the highest rate since 2021. However, this was not reflected in the Consumer Confidence Index (CCI). This indicator compares the current situation of the Spanish economy (households and employment) with that of half a year ago, and the forecasts for the next six months. June's Consumer Confidence Index (CCI) still stood below 100 with 92.4 points.

Retail health is tracked by using, among others, the Retail Trade Index (RTI) and Large-Scale Retail Trade Index (LSRTI). After a slump in the summer of 2022, both indices rebounded, with RTI standing at 111.54 and LSRTI at 112.08 in June 2023.

Looking ahead to the second half of the year, Funcas predicts a slowing economy, as a result of disinflation and the evolution of monetary policy. Nevertheless, a growth of 2.2% is expected for 2023 as a whole.

Key Luxury destinations

GLOBAL CONTEXT

Changes in consumer habits and advances in technology have transformed the luxury market. In 2022, despite major economic uncertainties, the sector grew by 8.10% up from 2019 levels. Projections suggest that the number of luxury consumers could rise from 400 million in 2022 to 500 million in 2030 (Bain & Co. Renaissance in Uncertainty: Luxury Builds on Its Rebound).

As a result of the excellent prospects of this sector and in order to compete with the European giants, groups such as the American Tapestry, owner of Coach and Stuart Weitzman, recently acquired Capri Holdings (parent company of the luxury brands Jimmy Choo, Versace and Michael Kors) for \$8.5 billion. This positions them as the second-largest luxury retailer in the US, trailing only LVMH.

The main drivers of this change have been the so-called "aspirational luxury buyers" – Generation Alpha, Generation Y (millennials) and Gen Z. Despite having reduced their spending as a result of the economic climate, it is expected to triple by 2030, with brands from groups such as Kering and LVMH already targeting these demographics.

The luxury sector is no longer exclusive to the upper classes. Future growth, driven by younger generations, will capitalise on both traditional and modern channels, including e-commerce, the metaverse, and social media.

The growth in luxury retail spend globally is also shaping luxury retail enclaves with demand expanding beyond the traditional luxury pitch. On London's Bond Street demand from luxury brands is moving up the street, evolving the brand mix and rental tone across the whole street. Meanwhile in Spain, Galería Canalejas is

positioning Madrid as a global luxury shopping hotspot on a par with the world's great capitals.

International tourism is a key driver for luxury spend. Shoppers are motivated on two levels: direct factors relating to the quality and variety of shopping areas, and indirect factors associated with the context of the tourist destination itself, in which the "city" brand plays a fundamental role. Accessibility, hotels, language, and safety are crucial attributes that influence destination choice.

In 2022, global luxury store openings surged by 11% compared to 2021. China continues to dominate the market, accounting for 41% of these openings, albeit down on the previous year due to the ongoing lockdowns within the country.

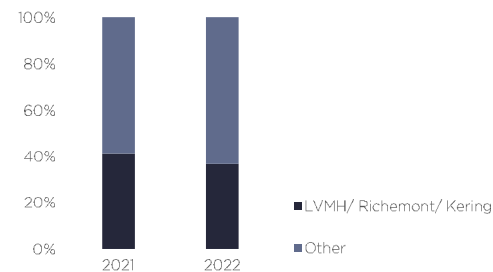
Europe witnessed a 77% rise in luxury store openings in 2022, benefiting from a slowdown in the pace of openings in China, a recovery

in tourism and spending, an increased availability of luxury locations and rental adjustments. This last factor is clearly reflected in London's Bond Street; while prime rents increased in Q1 2023, they were still 17% below pre-pandemic levels.

Another growth region in 2022 was the Middle East, which doubled its share of new openings from 3% to 6%. Dubai continued to be the main market, although Saudi Arabia has been gaining prominence over time.

The three largest luxury groups – LVMH, Richemont, and Kering – continued their global expansion throughout 2022. However, their share of total openings declined compared to 2021, largely due to two factors: increased activity by smaller groups and independent brands and upsizing of stores in larger more established markets by the bigger groups.

New store openings worldwide | by group



Source: Savills Global Luxury Retail, 2023 Outlook. Identifying and realising opportunities

FOCUS ON SPAIN

Madrid

The wave of five-star hotel openings and haute cuisine restaurants in Madrid has elevated the city to the top three of the European luxury market, after Paris and Milan. Public campaigns such as "Madrid Capital of Luxury" or private initiatives such as "Forward_MAD" are driving this tourism in the capital, with an ecosystem that provides an experience on par with the world's leading high-impact tourist hotspots.

Luxury spend in Madrid has also been aided by the removal of tax-free spending in the UK, which has displaced this spend to other European markets that still offer this to non-European visitors, including those from the UK. For example, Global Blue found that tax free spend in Spain in 2022 by visitors from Gulf States was up 58% on 2019 levels.

Key highlights driving Madrid's luxury appeal include the new and revamped luxury hotels such as Mandarin Oriental Ritz, Four Seasons, Villa Magna Rossewood, JW by Marriot Madrid, Hyatt Centric, and The Madrid EDITION. Additionally, the city boasts a variety of shows, world-renowned museums, historic monuments, and an impressive culinary scene with restaurants collectively holding 24 Michelin stars.

Barrio de Salamanca

Known as the "Golden Mile" and located near landmarks such as the Retiro Park, Barrio de Salamanca is a reference point for haute couture fashion. Specifically, Ortega y Gasset Street and part of Serrano Street are the main luxury axes,

representing 19% of the total. Despite the rise in available shops after the 2008 crisis, currently the vacancy rates in these areas are very low, averaging around 6.5%.

These streets are notable for hosting brands like Gucci, Cartier, Joyería Suarez, and Nicols, which are present in both. Furthermore, Serrano Street's luxury presence has grown, evidenced by a decreased vacancy rate (3.4%) in 2023.

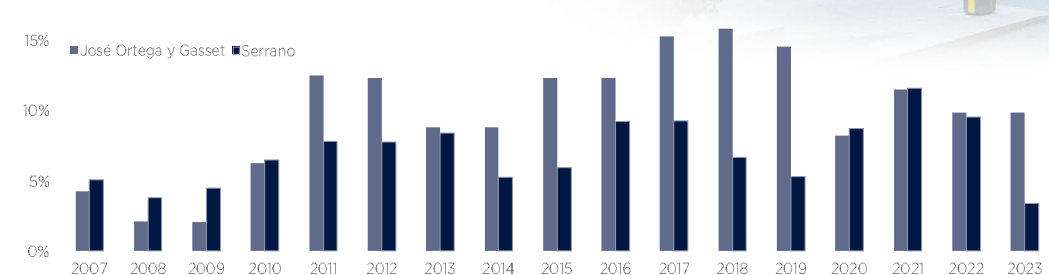
As well as the area's diverse luxury offerings, visitors can admire the beautiful architecture and complement their shopping experience with a visit to one of the quality restaurants.

Galería Canalejas

Opened in 2022, Galería Canalejas is a 15,000 sq m commercial space spanning three floors, home to brands like Louis Vuitton, Omega, Valentino, Rolex, Saint Laurent, Dior, Hermès and Cartier. Its basement features a Food Hall with haute cuisine restaurants, unique in Madrid, with more than 25 restaurants of different specialties and nationalities, including Mad Gourmets, a gastronomic market for foodies looking for delicacies in small bites.

The differentiating factor of this development is that alongside its quality commercial and restaurant offering, it also houses a Four Seasons hotel and 22 luxury Branded Residence apartments, making it the only complex specialising in luxury in Spain.

Vacancy rate | by number of stores | Madrid



Source: Savills

Barcelona

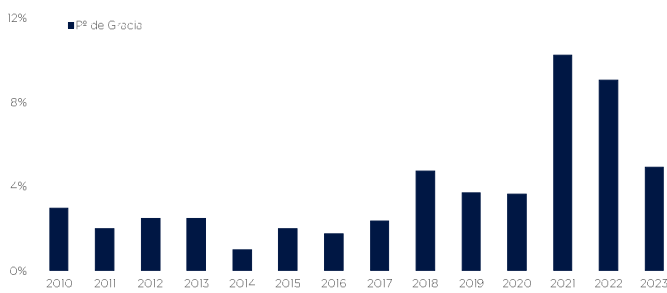
Marked by its modernist architecture, Barcelona's image as a cosmopolitan city makes it one of the main luxury enclaves in Spain.

Paseo de Gracia

With emblematic buildings such as Casa Batlló and La Pedrera, Paseo de Gracia is the luxury shopping avenue par excellence. It has a wide selection of top boutiques, including Chanel, Dior, Gucci, Versace, Prada, Miu Miu, Kenzo, Stella McCartney, Valentino and Louis Vuitton. The fashion sector holds a special importance on this street, comprising 87.9% of the total supply.

Historically, Paseo de Gracia has maintained a vacancy rate of less than 5%, but the pandemic and the reduction in tourism increased this rate to a peak at 10.2% in 2021. This level dropped down to 4.9% in 2023, mainly due to the resurgence of international tourism, especially from America and Asia.

Vacancy rate | by number of stores | Barcelona



Source: Savills

Marbella

In 2022, European Best Destinations dubbed Marbella the “most exclusive destination in Europe,” attributing its appeal to its climate, dining, golf courses, hotels, and events.

Puerto Banús

Established in 1970 on a Mediterranean village concept, Puerto Banús specialises in upscale nautical tourism. Located on the “Golden Mile” of Costa del Sol, it is Marbella's premier shopping area with the densest concentration of luxury shops per sq m in the whole of Spain.

Puerto Banús is a top pick for visitors from the United Arab Emirates. Enhanced direct routes between Málaga and Gulf nations have simplified travel, allowing tourists to enjoy all the attractions and leisure activities the city has to offer.

The shopping offering is made up of around 20 high-end boutiques, including Rolex, Dior, Bvlgari, Tom Ford, Jimmy Choo, and Valentino.

In terms of dining, the offering ranges from luxury restaurants to fast food places, with names such as the Chiringuito Aurora Beach, the Mesón El Arenal, the Los Bandidos restaurant, and the Magna Café.



Mallorca

Mallorca has long been recognised as a sophisticated and cosmopolitan destination, attracting a large number of affluent visitors. Luxury tourism in Mallorca is becoming increasingly more widespread, offering a wide variety of activities in line with the tastes of the most elite holidaymakers.

Paseo del Borne, often termed “the street of designers” or “Palma's Golden Mile”, is the go-to shopping location, blending high-end decoration shops such as Rialto Living, La Pecera, and Casa Lima with boutiques such as Louis Vuitton, Max Mara, Bvlgari, and Escada.

Ibiza

In recent years, the Balearic Island archipelago has risen as a top luxury hotspot, especially in the summer months. Known as one of the most attractive islands in the world, Ibiza is a meeting point for many celebrities from across the world of fashion, film, music, and sport. Its reputation as a premier luxury destination is underscored by the presence of four- and five- star hotels, placing it at the top of the most exclusive hotspots, surpassing the likes of Sardinia and Santorini.

La Marina, categorised as a 5-star port, complements its services with fashion stores, dining, and recreational services, catering to guests both onshore and onboard.

Pop-ups are common for the summer season, with brands such as Loewe, Dior and Bottega Veneta setting up shop. Additionally, the expansion of La Marina has made room for major brands to establish themselves permanently on the island.

Luxury visitors are drawn to Ibiza's ambience, comprising those seeking top-tier experiences for their holidays. Despite not being a primary shopping hub, visitors often buy luxury items during their stay.



Other concepts

The Luxury Outlet

The luxury discount shopping segment has become increasingly important over time. Typically located on the city outskirts and featuring a considered, open design, these outlets have become essential stops for international tourists.

La Roca Village in Barcelona and Las Rozas Village in Madrid, both spearheaded by Value Retail, collectively span nearly 36,000 sq m (18,500 sq m in Barcelona and 17,200 sq m in Madrid), featuring fashion boutiques, dining venues, and terraces, complemented by VIP services such as private chauffeurs and personal stylists. According to Ecostra's study of the 20 best outlet centres in Europe by the brands present, Las Rozas Village ranks fifth while La Roca Village stands at ninth.

McArthur Glenn's 17,500 sq m Designer Outlet Málaga offers a comprehensive shopping, entertainment, and dining experience thanks to its proximity to the Plaza Mayor Shopping Centre.

El Corte Inglés

Regarded as a pioneer in Spain's exclusive shopping scene, the El Corte Inglés centres in Madrid (Castellana and Serrano), Diagonal in Barcelona, and Marbella in Málaga all cater to the luxury consumer segment.

Additionally, in the centre of Madrid on Arapiles Street, one will also find the El Corte Inglés luxury brand outlet. This space, formerly

a traditional El Corte Inglés building, was converted in 2021 to accommodate more than 150 premium brands.

The main advantage is that they bring together a wide range of products in one space, so that international tourists (especially Chinese tourists, who tend to visit the city on a tight schedule) can shop efficiently.

The centre of Barcelona has the “Las nubes de Diagonal” terrace, where one can enjoy views of Avenida Diagonal while sampling international cuisine from a variety of food trucks. In Madrid, on Castellana, the “Gourmet Experience” area is a space dedicated to gourmet cuisine.

These centres offer exclusive services that elevate the guest experience, including personal shopper, VIP concierge, international shipping, tax refunds, hands-free shopping, and international customer information desk.

WOW Concept

Inaugurated on 12 March 2022 at 18 Gran Via in Madrid, the WOW project converted the iconic Hotel Roma into a concept store. Combining the physical and digital worlds, with the aim of offering the most complete experience to the consumer, eight distinct spaces have been created, one on each floor. Six of these are dedicated to fashion, beauty, and decoration, while the other two, named “The Penthouse”, offer dining experiences.

In the 5,500 sq m space, the customer can look, touch, and try on a careful selection of brands, such as Chiara Ferragni, Zegna, Mansur Gavriel, Coperni, Ganni, and Vitra. The aim is to balance established and emerging brands, both national and international, with frequent brand rotations to create a dynamic space that motivates and appeals to new generations.

In the second half of 2023, WOW will open a new space in the former El Corte Inglés building at Serrano 52. Securing a long-term lease of up to 30 years, the new building will have multi-brand spaces along with dining areas.





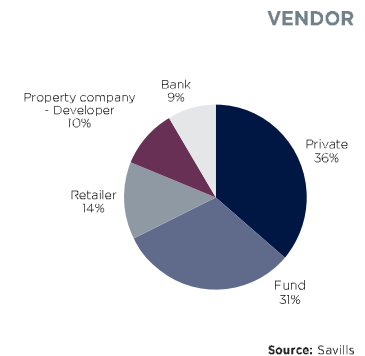
Owners and investors

In the first half of the year, Spain's high street retail market recorded transactions worth €103 million, accounting for 19% of the retail investment volume.

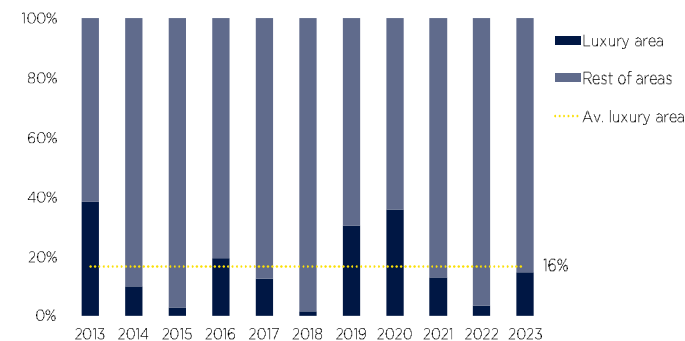
The scarcity of available space combined with luxury property owners viewing their holdings as secure assets makes transactions in this sector infrequent and information less transparent. Consequently, transaction volumes in prime luxury areas have averaged just 16% of the total High Street over the past decade.

Based on current data from H1 2023, only one transaction was signed in Madrid's most prestigious luxury sector at 30 Serrano Street, occupied by Duran jewellers. The property, previously owned by a jeweller family, was among four shopping units in Madrid's Barrio de Salamanca that they decided to sell to private investors.

Investment volume luxury shops | by type of vendor 2013-2023



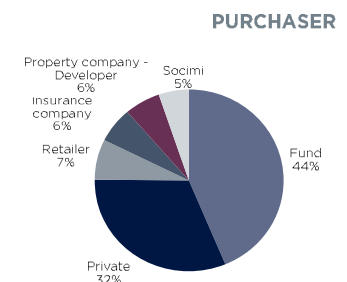
Transaction volume | prime luxury area vs. rest High Street



Funds and private investors were the main players in the luxury market, accounting for 68% of the volume sold and 75% of the volume purchased. Among the funds disinvested were KKH Capital Group, RREEFF, DEKA, and AEW, while the main fund buyers were Invesco, BMO, AXA REIM, and AEW.

Due to the scarcity of product and the reluctance on the part of brands to change location, average yields consistently remain below other market segments.

Investment volume luxury shops | by type of purchaser 2013-2023



Luxury Consumers

Who are they?

Residents

- **Nationals:** The growth of the middle- and upper-class population in Spain has increased the demand for luxury products and services.

Local customers buy both in-store and online, and stay informed about trends in fashion, beauty, and gastronomy. They tend to live in the vicinity of the luxury shopping areas where they shop and therefore develop a closer and more personal relationship with the shop staff.

There are two primary customer profiles: older individuals, typically holding executive roles, and a younger demographic connected to liberal professions. The latter often research extensively before making a purchase, frequently integrating luxury items with more mass market products.

- **Internationals:** Predominantly from the United States, Mexico, Venezuela, and Colombia, these individuals with substantial purchasing power choose to reside in Spain due to favourable factors such as climate, safety, political stability, and attractive real estate prices.

Non residents

The so-called high-impact tourist spends on average four times more in Spain than the average visitor, allocating their budget to shopping, cultural events, and leisure.

- **Chinese tourism:** After a three-year hiatus due to the pandemic, Chinese tourists have resumed their travels, favouring destinations like Madrid and Barcelona. Over the past three years, approximately 1.9 million Chinese tourists have visited Spain, spending an average of €2,800 per trip (AsialinkSpain). As per INE's 2022 data, Catalonia leads in attracting Chinese expenditure at 35.5% of the total, closely followed by Madrid at 28.98%.
- **Latin American Tourism:** Tourists from Latin America primarily spent in the Madrid Region, accounting for almost 40% of their expenditure, followed by Catalonia at 22.65%. Expenditure in other regions was below 8.5%.
- **Tourism from the United Arab Emirates:** Their highest spending was recorded in Catalonia, constituting 32.78% of the total. This was followed by Madrid at 21.69%, Andalusia at 19.62%, and the Balearic Islands with 11.56%.
- **Tourism from the United States:** su Tourist expenditure from the USA was mainly channelled into Madrid and Catalonia, with respective shares of 28.08% and 25.76%. Andalusia came in third, capturing 14.15% of the total spend.

The new generations

Generation Z, those born between 1994 and 2010, are delving into the luxury market at increasingly younger ages. Bain & Co's report "Renaissance in Uncertainty: Luxury Builds on its COVID Rebound" indicates that Gen Z consumers start their luxury purchases three to five years earlier than Millennials, typically around age 15 as opposed to 18 or 20. Projections suggest that by 2030, Gen Z's luxury spending will surge threefold compared to other generations.

“These younger consumers aim to cultivate a unique image, often flaunting exclusive items on social media. Pressured by the immediacy of these platforms, they tend to curtail traditional shopping time and pivot towards online channels, increasingly using them to access other countries and markets.”

However, it's not only Gen Z gravitating towards these digital platforms for luxury shopping. Over 27% of Millennial consumers anticipate significantly increasing their online expenditure this year, especially in categories like health and beauty, luxury, clothing, and footwear (Global Voices Pre-peak 2022. Luxury. ESW).

How do they shop?

Consumer buying habits

Consumer preferences are influenced by their country of origin and cultural background. However, across the board, the quality of service remains paramount in the shopping experience.

Several factors dictate the choice of luxury shopping destinations. Direct factors include location, ambiance, and available services of the shopping area, while indirect factors include transport links, safety of the area, and the climate.

Chinese shoppers, especially Chinese tourists, prefer department stores or shopping centres because of the wide variety of brands in one space. Their typical stays are shorter than European tourists, necessitating a focused "shopping-first" approach due to their limited time.

This is a premium middle/upper class visitor with significant purchasing power and a higher spending per person than their European counterparts. This population group represents 10% of the Chinese population and accounts for 40% of visitors to Spain.

Latin American tourists favour leisure-focused shopping experiences. They are inclined towards open areas such as Barrio de Salamanca or Paseo de Gracia where they can wander, experience the city, and socialise in a relaxed environment. Unlike shoppers with a specific purchase intent, they tend to make purchases spontaneously during their outings.

These tourists feel very comfortable in Spain due to the common language and the safety of the streets. Their stays range between two and four days, and occasionally longer. Recommendations from acquaintances often guide their shopping choices. With shopping being part of their free time, typically they shop in small groups, with partners, or family and friends.

Consumption through online platforms

“Post-pandemic expectations anticipated a continued increase in online shopping. However, towards the end of 2022, there was a noticeable shift back towards brick-and-mortar retail. Online sales growth decelerated, concluding the year with an 11% share of the market, falling short of Forester's projection of 13%”

Notably, this is well below the 19.5% Western European average for the same period, a deviation likely influenced by the favourable climate and lifestyle of the Mediterranean.

But, what about luxury?

In recent years, the luxury sector has undergone a remarkable change in the sales landscape by embracing online sales channels as an integral part of its growth strategy.

A driving force behind this shift has been the younger generations – Gen Z and Millennials. These digital natives value the convenience and accessibility of e-commerce, particularly attracted to online shops' around-the-clock accessibility and absence of geographical boundaries. The ease of price comparison on multiple sites also enables them to make well-informed decisions, ensuring they get the best value for their money.

In 2022, Amazon launched Luxury Stores, a multi-brand platform focused on expanding its line of luxury brands and its ready-to-wear collections in the UK, France, Italy, Germany, and Spain.

While the digital realm has garnered significant interest, the tangible in-store experience remains an invaluable facet for luxury consumers. As we look ahead, the golden strategy for retailers lies in seamlessly integrating both physical and digital channels, incorporating an omni-channel approach.



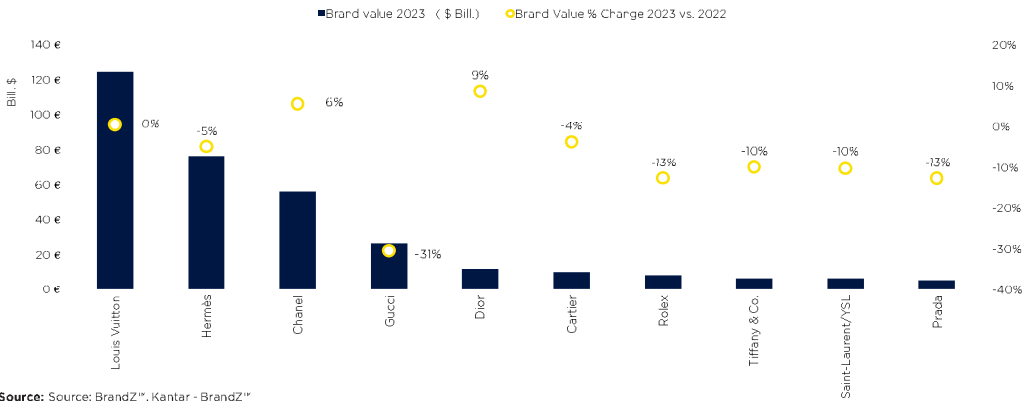
Brands and retailers

Traditional luxury brands with clear brand identities have become a trusted choice for affluent consumers, even in times of crisis. Despite rising prices and difficulties resulting from the war in Ukraine, luxury brands have managed to retain their appeal, increasing in value in recent years.

Leading the list of the top 10 global luxury brands in 2023 for the 18th consecutive year is Louis Vuitton, with a brand value of \$124.8 billion. In second position is Hermès, which despite experiencing a 5% dip from 2022, reaches \$76.3 billion (BrandZ Most Valuable Global Brands 2023, by Kantar).

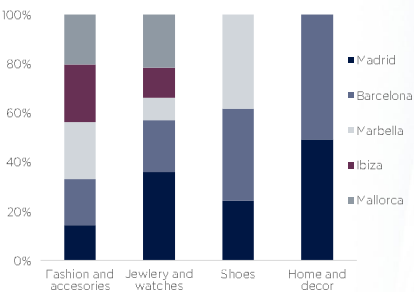
However, the brand that showed the greatest growth was Dior, increasing 9% year-on-year, followed by Chanel with a growth of 6%.

BrandZ luxury ranking 2023



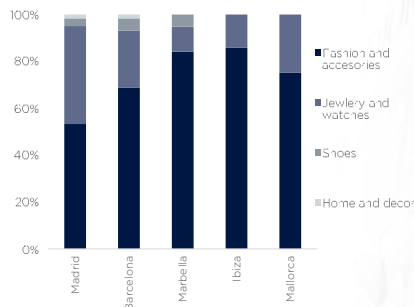
Source: Source: BrandZ™, Kantar - BrandZ™

Prime luxury area shops | by activity 2023



Source: Savills

Prime luxury area shops | by city and activity 2023



Source: Savills



Retailer expansion

In 2022, “ultra-luxury” brands accounted for 68% of global store openings. However, a change has been observed in the product category: while there was a decline in the jewellery and watch sector’s market share from 29% in 2021 to 24% in 2022, fashion and accessory store openings surged to 64%.

By region, in 2022 Europe saw a 77% year-on-year increase in new store openings, rising its global share of new openings to 23% and ranking second after China.

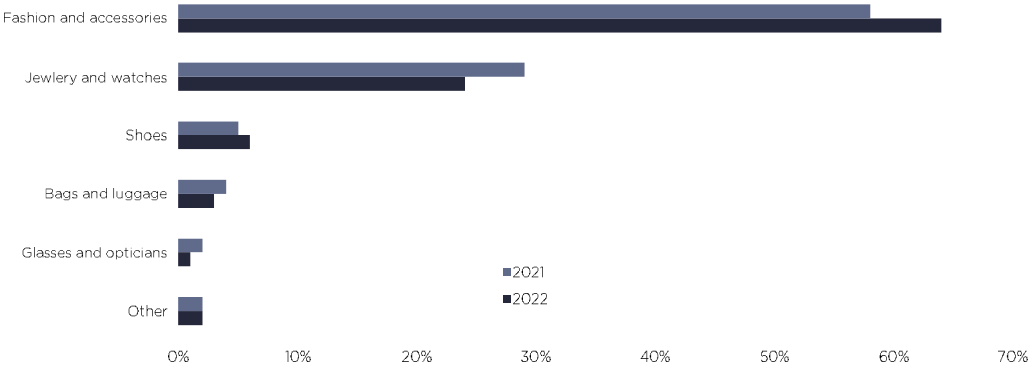
Spain was a major beneficiary of this increase in occupier demand for luxury brands. It ranked 4th behind UK, Italy, and France on new openings in Europe, multiplying by 3 the 2022 openings of luxury brands in the main Spanish shopping streets: there were 25 brands opening compared to 8 in 2021.

This massive rise in the ranking, which in 2019 ranked 8th, has boosted attractive opportunities in Spain, and specifically in Madrid. Centro Canalejas project has contributed to this increase,

together with rising international arrivals and tax-free spending, driven in part by the removal of tax-free spending in the UK.

Apart from Madrid, the preferred destinations continue to be Barcelona, followed by Puerto Banús and Ibiza, and recently Mallorca and its Avenida del Borne. Other cities, such as Valencia on Colon Street or in Málaga on Larios Street, are beginning to attract the interest of fine jewellery and watch retailers.

New shop openings worldwide | by category



Source: Savills Global Luxury Retail, 2023 Outlook: Identifying and realising opportunities

In Madrid, the 2022 openings were distributed between the prime streets and Galería Canalejas. These openings were accompanied by the emergence of new luxury five-star hotels.

- The Serrano-Ortega y Gasset axis saw seven high-end store openings, a significant increase from one in 2021. Classic brands include Hublot, Breitling, Vacheron Constantin, and Loué, a store specialising in pre-loved luxury goods.
- Galería Canalejas highlights include the inauguration of Hermès in 2020 and of Cartier in 2021, the largest Dior store in Spain, and the emblematic stores of Jimmy Choo, Louis Vuitton, Aquazzura, Valentino, Saint Laurent, Zegna, Rolex, and Omega, among others.

Barcelona reported seven luxury store openings in 2022 (including relocations), a rise from three in 2021. In Paseo de Gracia, established brands such as Etro, Eres, and Rolex expanded their presence, with newcomers like Zimmerman and Boila also making their entry. Furthermore, since 2020 brands like Armani, Tiffany, and Hermès have positioned themselves by relocating their boutiques.

After several years of searching, Hugo Boss secured a prime spot in Puerto Banús, one of the largest transactions in the area, taking over the former Tourbillon store. Meanwhile, luxury giants Dior, Louis Vuitton, and Loewe have announced exclusive summer pop-ups in Ibiza.

LVMH brands are scouting prime locations in Madrid, Barcelona, and Puerto Banús,

particularly on Serrano Street between Ortega & Gasset and Ayala. On the other hand, the Richemont and Kering groups are showing interest in spaces in Palma de Mallorca, a market showing great potential.

“ In any case, brand expansion efforts are limited by the availability of stores in premium areas, the only options for certain luxury brands ”



Rents

Scarce availability is driving up rents in key cities like Paris and Milan. In Italy, Milan's Via Montenapoleone has climbed the ranks of Europe's most expensive luxury streets, overtaking London's Bond Street.

Toronto, London, and Hong Kong have been recovering their rents from the lows observed in the pandemic, although they are still 10% below that of Q4 2019.

In Spain, the impact of tourism has marked the evolution of rents; compared to a reduction of 8% (average luxury streets in Madrid and Barcelona, 2020 vs. 2019) as a consequence

of the pandemic, at the beginning of 2023 rents rose an average of 2.6% year-on-year, highlighting Paseo de Gracia where the increase was 4.7%.

“ The highest prices are often found on streets blending luxury with mass-market retail, benefiting from high footfall and an increased prominence of commercial stretches. ”

Madrid's Serrano and Barcelona's Paseo de Gracia top the list as the most expensive streets (€235 per sq m/month and €245 per sq m/month respectively), as they welcome a multitude of residents and tourists. However, the highest rents for Madrid's Ortega y Gasset, focused exclusively on luxury and with a lower footfall, fell to €170 per sq m/month at the beginning of 2023.

Serrano
(Madrid)
235
€/sq.m./month

Ortega y Gasset
(Madrid)
170
€/sq.m./month

P. de Gracia
(Barcelona)
245
€/sq.m./month

Prime rents luxury streets | International



Source: Savills Global Luxury Retail, 2023 Outlook. Identifying and realising opportunities, Q1 2023

Prime rents annual variation | Spain



Source: Savills

Trends

shaping the sector

Experiences

The emergence of new technologies has revolutionised the luxury shopping experience. Retailers are transforming their spaces into captivating destinations that engage customers through immersive narratives.

The Louis Vuitton store in Tokyo is a prime example, standing out for its impressive architecture and design, as well as its aquatic theme highlighted by a giant floating monogram jellyfish and lighting that simulates an underwater experience.

When customers enter the new Dior boutique on California's legendary Melrose Avenue, they are instantly transported to the 1950s atmosphere of South Beach, Miami. With its unique floor design, vintage cars used as window displays, and a blend of retro and avant-garde aesthetics, this store stands out as a benchmark in innovative luxury retail.

One of the pioneering formats in Spain is WOW Concept with its immersive and regularly updated spaces complete with giant classic statues, a fashion catwalk, an industrial gym with neon lights, grilles and metal, and a collector's house from the 1970s.

Digital transformation

1. NEW SALES CHANNELS

• Metaverse

Thanks to this technology, consumers can access different virtual experiences anywhere in the world and try on clothes and accessories, even in the absence of a physical store.

Tmall Luxury Pavilion, a luxury-focused segment of Alibaba's platform, stands out as China's premier online luxury marketplace. With a roster of over 200 brands, including leading luxury design groups such as LVMH, Kering, Chanel, Richemont, and Hermes, the concept aims to elevate brand identity via a 360-degree consumer experience. The platform integrates virtual reality, avatars, digital collectibles, and 3D purchasing capabilities to seamlessly merge luxury with online retail.

Louis Vuitton, leveraging Google's augmented reality tech, brought its new South Korean travel book to life. By simply pointing their phones at the book, readers can see vibrant animations paired with auditory experiences.

“With abundant resources available online and on social media, consumers have become more proactive in their research and decision-making process, recognising the importance of being informed, or even trying out the product before buying it”

Social media platforms such as Instagram, TikTok, and YouTube have become a crucial tool for brands, allowing them to showcase products, establish authentic connections with consumers, adapt quickly to trends and preferences, and efficiently drive global sales.

Gucci's innovative social media campaign targeting millennials exemplifies this. Using the language and culture of young people along with the hashtag #TPWGucci on Instagram, the brand created a series of memes with a careful and recognisable aesthetic, subtly incorporating elements from its watch collection with great impact. The campaign was a resounding success, garnering over 1.9 million likes from users, underscoring the effectiveness of the brand's strategy to connect with this generation.

2. ARTIFICIAL INTELLIGENCE

• Virtual assistants

Virtual assistants and chatbots are becoming increasingly prominent and essential on fashion and luxury brand websites, with their primary purpose to improve customer service and elevate the online shopping experience. They achieve this by promptly answering customer inquiries, suggesting products based on individual preferences, and offering a personalised experience.

This technology gives users the feeling of being in a physical store from the comfort of their homes, recreating the personal and friendly in-store service that shoppers value so much.

Virtual assistants have also been implemented in physical stores, combining the physical and online worlds (a concept known as “phygital”). For instance, Galeries Lafayette in Paris has introduced the Personal Stylist 2.0 app, serving as a virtual assistant through instant messaging for shoppers.

Gucci has set a milestone by democratising its product among this unconventional demographic in the physical world. The brand also innovated by introducing an augmented reality app, allowing customers to virtually try on their Ace trainers.

• Supply chains and strategy

From a logistics perspective, artificial intelligence has proven invaluable for luxury brands, allowing them to intelligently manage and control inventory replenishment, track shipments, and efficiently detect and solve any problems.

Galeries Lafayette in Paris has RFID (radio frequency identification) equipped hangers to verify and geolocate the availability of a product or its size. In Zara and Mango stores, shop assistants have access to real-time information on the stock of a specific item both in the same shop and across the country.

• The Beauty Tech

Brands such as L'Oréal Lux have already embraced Beauty Tech, an emerging technology trend, allowing customers to take photos of themselves on their mobile, sample different shades of a product, and receive personalised beauty recommendations from home. Not only does this enhance the shopping experience, making it more reliable and enjoyable for the customer, but it also boosts online sales.



Sustainability and resale

Sustainability is playing an increasingly important role for luxury brands, especially among younger generation consumers, who hold a strong preference for eco-conscious brands and those making a positive impact on the environment. Recent data from BGC and the Colbert Committee indicates that 65% of consumers take into account a company's commitment to sustainable practices when making purchasing decisions.

• **Blockchain:**

The Aura Blockchain consortium – first launched in 2021 by LVMH, Prada Group, OTB, Mercedes-Benz and Richemont – is focused on promoting more sustainable trends in the fashion world and helping its members improve the traceability of their products using a single global blockchain solution.

Blockchain technology is revolutionising e-commerce in the fashion and luxury industry. This cutting-edge system assures product authenticity and traceability. Moreover, it improves transparency throughout the supply chain, giving brands the opportunity to show their commitment to social and environmental causes.

• **Recommerce:**

Driven by environmental concerns and the allure of luxury at more affordable prices, well-known brands like Gucci and Balenciaga are integrating strategies to align with a more circular market model. This shift supports the evolving view of fashion resale as a legitimate form of consumption.

In line with this trend, online platforms for selling pre-loved luxury items, such as The RealReal and Vestiaire Collective, have witnessed significant growth in 2023, extending the life cycle of these products.

Even in the realm of brick-and-mortar retail, luxury brand resale shops are making their mark. One notable mention is the newly established Loué brand, situated on Serrano Street in Madrid. Styled as a luxury boutique, it offers esteemed brands such as Louis Vuitton, Chanel, and Jimmy Choo, among others.

Other leading brands committed to sustainability include Tiffany & Co (through its responsible diamond sourcing practices) and Gucci (with its "Gucci Equilibrium" campaign, which promotes diversity, inclusion, equality, and solidarity). Notably, Gucci was also the first luxury brand to ban fur in all its collections.

New forms of purchase

Changes in customer expectations and consumption habits have prompted luxury brands to adapt and react.

Companies like Hublot allow customers around the world to discover and shop by scheduling an online appointment with a sales associate at their Fifth Avenue store, granting them a view of their watch collection from every angle.

Similarly, using the YookMirror mobile app, customers can try on clothes virtually by creating their own avatar. This digital representation not only allows them to preview new collections –whether set in a grand mansion or a desolate desert– but also to participate in virtual fashion launches.

“ Virtual fashion shows, the new trend in the luxury fashion sector, allow attendees to purchase clothes for their avatars and attend digital after-parties ”

Online and offline experiences are becoming increasingly intertwined. Brands such as Chanel have partnered with Farfetch for a new concept that provides loyal customers the opportunity to pre-select runway or pre-collection outfits, and then try them on in front of high-tech mirrors available in their Paris boutiques.

Conclusion

“ In the face of global economic challenges, the luxury market has shown remarkable resilience. The unwavering loyalty of traditional customers, and the emergence of new types of consumers and technologies, suggest a potential for sustainable growth in the mid- to long-term ”

E-commerce has rapidly become an essential facet of the purchasing process. Innovations like the metaverse and virtual and augmented realities have fostered enticing immersive platforms, gaining significant traction among younger audiences.

Nevertheless, physical stores still remain at the forefront, as luxury shopping brings with it a sensory and immersive experience: the in-store ambiance and, more importantly, the highly personalised service, which plays a key role in the shopping process.

As a result, there is strong demand for retail space from large groups, with major retailers unrelenting in their intention to open shops in traditional prime areas. The pandemic led to an increase in availability and a reduction in rents in some markets, such as London and New York, but the sector's resilience has led to a rise in rents and a decrease in availability in other domestic-focused markets.

A large part of the demand for luxury goods comes from foreign tourism. Notably, Spain's high-impact tourism represents the greatest share in GDP in any European country, yet it is the market with the lowest daily expenditure from this type of tourism. Madrid, Barcelona, and Marbella are the

traditional luxury shopping destinations in Spain. Retailers have a clear preference for established commercial hubs in these cities, despite facing challenges with limited space availability.

In addition to the traditional shopping streets, four El Corte Inglés department stores in Madrid, Barcelona and Marbella offer a wide variety of options, alongside outlet stores in Las Rozas (Madrid), La Roca (Barcelona) and McArthur Glenn (Málaga). For its part, Galería Canalejas in Madrid has managed to create an additional luxury pole with a Four Seasons hotel to complement the visit, while WOW Concept appeals to younger generations who are very active in the online world.

Spain's tourism sector has great potential, but for the country to be integrated into the luxury circuit while increasing current tourist spending, it is necessary to establish a tourism plan that reinforces some strategic levers, namely consolidating the concept of "high-end sun and beach", creating sustainable experiences, improving the transport network, and increasing the luxury commercial and hotel offering.

Joint public and private efforts are underway that will strengthen the image of Spanish cities and create a 360° customer experience.





Savills Research

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