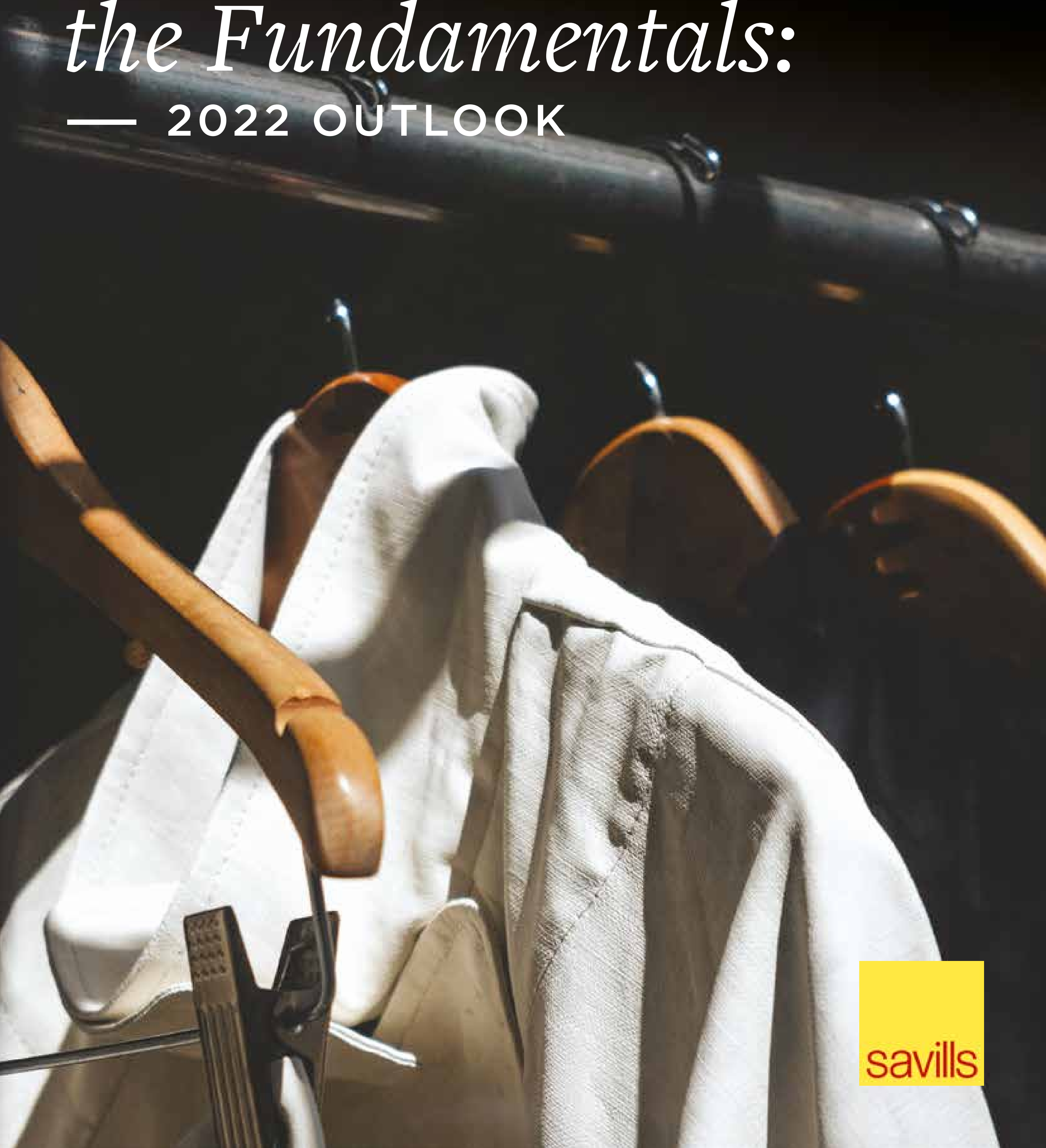
— Global Luxury Retail *A Refocus on the Fundamentals:*

— 2022 OUTLOOK



Welcome to the Savills Global Luxury Retail 2022 Outlook

This, our fourth edition, takes stock of the global luxury retail market after the impacts of the pandemic and what the physical luxury market could look like going forward. What has been reassuring is the resilience and adaptability of luxury. While 2021 may not be a direct reflection of what to expect over the remainder of 2022 and into 2023, it does provide valuable insight into key trends that could shape the market over the coming years.

Key highlights include the rising prominence of China for new store activity, the prospects for a recovery in international travel in 2022 and whether we are seeing store rationalisation in mature markets start to slow. In addition, we explore what cities present the strongest luxury fundamentals for stores and which are the growth markets to watch.

With our unrivalled knowledge of brand requirements and new entrants into the market, we are best placed to advise and provide in-depth insight into the key established and emerging markets. This is further bolstered through thought leadership and market intelligence from our specialist luxury retail research team. In recent years we have worked with a range of clients within the luxury retail sector and advised on a number of high profile transactions highlighted in this brochure. Our unique global offering positions us to simultaneously advise on locations, values and key property criteria throughout all major cities across the globe.


Anthony Selwyn
Co-head Prime Global Retail Team


Marie Hickey
Director, Retail Research

SAVILLS GLOBAL LUXURY RETAIL

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Refocus on CHINA

New store activity globally has tended to follow the Chinese luxury consumer and the geography of new openings in 2021 was no different.

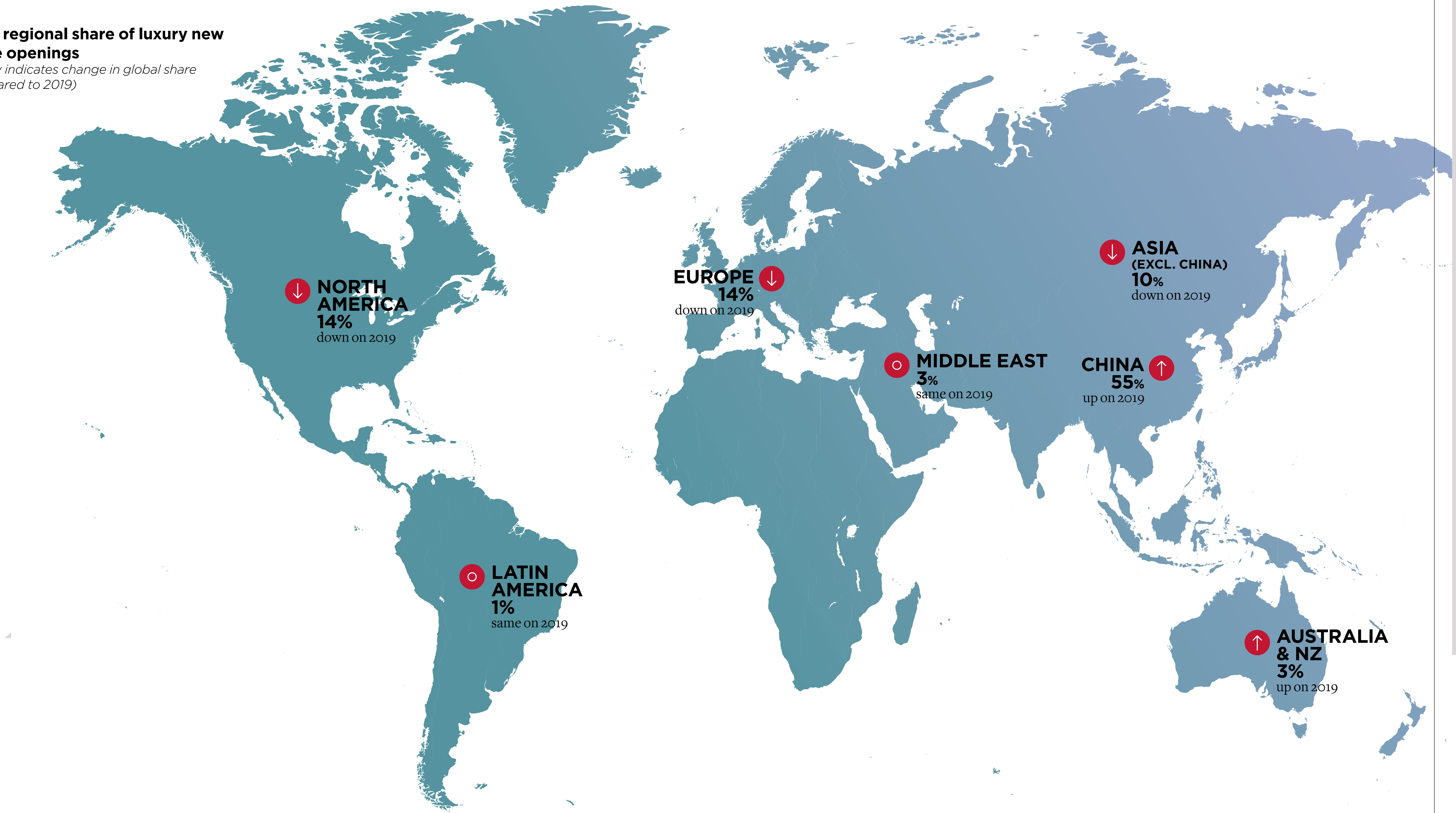
With Chinese consumers unable to travel and their luxury spend largely taking place domestically, with Bain & Company noting that 21% of global personal luxury goods spend took place in China, luxury brands continued to target this market with new store openings. This is evidenced in the fact that 55% of all new store openings were in China, up proportionally on what was seen in 2019.

In contrast we saw contractions in share in other regions. Europe saw the most significant decline in new openings with its global share declining from 35% in 2019 to 14% in 2021. This is a reflection of the significant fall in international tourist spend across major European destination cities due to the pandemic, a key driver of luxury spend performance. The fact that brand coverage is Europe is relatively more mature compared to China, also played a part.

While China was the only major market to increase its share of new openings, in terms of quantum of openings we saw a bounce in activity in North America in the latter part of 2021 with year end numbers largely in line with that seen in 2019. In the Middle East we saw an increase in new openings on 2019, albeit in terms of global share it held at 3%.

As was the case with China, this activity was focused on those markets with large and relatively affluent domestic populations. For example, in the case of the Middle East we saw increased activity in Saudi Arabia in 2021 where historically Dubai was the focus for new store openings.

2021 regional share of luxury new store openings
(arrow indicates change in global share compared to 2019)



Source: Savills (new openings excludes relocations, re-openings due to refurbishments and pop-ups)

VIEW FROM CHINA

Nick Bradstreet,
Head of Asia Pacific Retail

Strong domestic sales in China amid the limited overseas travelling opportunities and the swift economic rebound, propelled a higher expansion rate among luxury retailers over the last 12 months. This shift in spending is likely to persist under a series of government policies to boost domestic consumption, including the expansion of duty-free operations. We see a lot of retail potential in Hainan as the island is expected to turn into a free-trade port by 2025. Its total duty-free sales soared to US$9.4 billion (RMB 60 billion) in 2021, up 84% year on year. Luxury brands are likely to enter the market with a travel retail format with license holders such as CDFG, MIXC and other duty-free players, with a focus on the Haikou and Sanya markets. We have also seen luxury outlets open in high-end ski resorts, such as Fendi in Changbaishan and Burberry in Songhua Lake.

Tier-2 cities have outperformed their tier-1 counterparts for luxury store expansion last year. Looking forward, we expect markets beyond the top tier will continue to offer some exciting opportunities with developments completing in Wuhan, Chengdu, Hangzhou, Nanjing and Xi'an. In the case of Wuhan, the opening of 'Heartland 66' and 'Wuhan MixC' should provide a boost to luxury provision in the city. Aside from the increasing supply of quality stock, the relatively lower rents in tier-2 cities also means a quicker store payback for the brands, often less than 18 months, further adding to the appeal of these markets to expanding luxury brands.

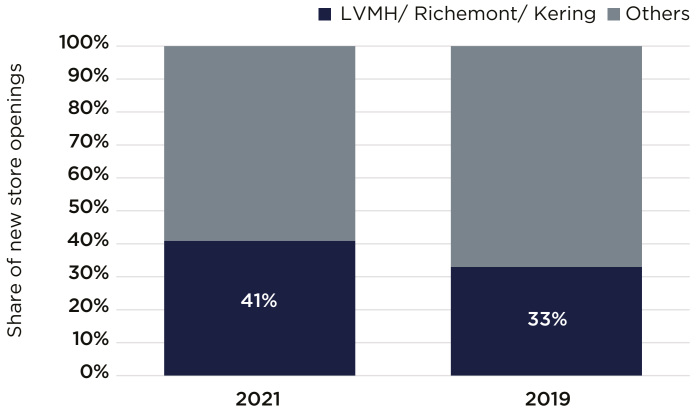
The BIG *luxury* groups continue their **DOMINANCE**

The top three luxury houses, LVMH, Kering and Richemont, continued to expand their share of new openings. This is likely to pick up pace going forward in light of their recent M&A and funding activity.

The three largest luxury groups, LVMH, Richemont and Kering accounted for 41% of all new openings globally in 2021, up on their 2019 share of 33%. The expansion of store footprints by these groups comes as no huge surprise considering their brand acquisitions prior to the pandemic.

However, the acceleration of M&A activity by these groups over the last 12-18 months could mean an expansion of store footprints by some of these new acquisitions suggesting their dominance is likely to increase.

New store openings by group



Source: Savills

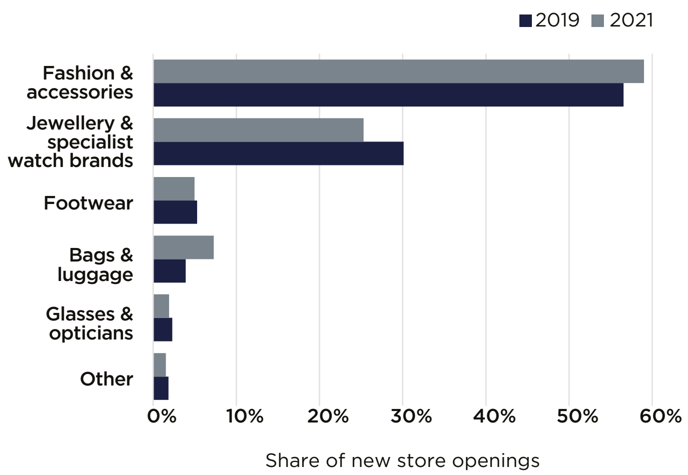
A *refocus* on **ULTRA-LUXURY**

Ultra-luxury brands were more active when it came to store expansion in 2021, particularly within the jewellery and specialist watch segment.

Accessible luxury brands had been expanding market share and with it their store footprint for a number of years. Last year saw this trend reverse somewhat with accessible luxury brands share of new openings falling from 36% in 2019 to 31% in 2021. In some regions we saw a very marked increase in the dominance of ultra-luxury. For example, in the Middle East ultra-luxury brands accounted for 92% of new store openings.

New openings by luxury fashion brands continued to dominate in 2021 accounting for 57% of all global new openings, down on its 59% share pre-pandemic. This fall in share was largely attributed to a marked increase in the share of new openings linked to jewellery and specialist watch brands up 4.8 percentage points to 30%. We suspect that strong trading in this part of the market over the last two years, supported by pent up demand and increased savings in response to the pandemic, has driven this. For example, Swiss wristwatch exports were up 14.1% in unit terms in 2021 with key markets such as the US and China reporting imports above 2019 levels in value terms.

New store openings by category



Source: Savills

69% share of openings by ultra-luxury brands

up from 64% in 2019

VIEW FROM THE US

Janie French

Vice President of Business Development, SRS Real Estate Partners

The post-Covid luxury market in the US was boosted in 2021 by increased local spending and the strength of direct-to-consumer commerce. This has facilitated new store openings by luxury brands. However, unlike years past, many luxury brands are leaning towards off-mall locations for their stores, such as suburban shopping centres and urban locations on high streets and in open-air centres.

The mall exodus that began as early as 2014 has slowed but continues, and luxury retailers are among those making an exit. While the major cities continue to appeal we are seeing some brands secure stores closer to more affluent shoppers who live in the suburbs and vacation in resort locations. For example, Moncler recently opened a store in the Colorado ski resort of Vail with Balenciaga and Overland Sheepskin Co. having pop-ups in Aspen.

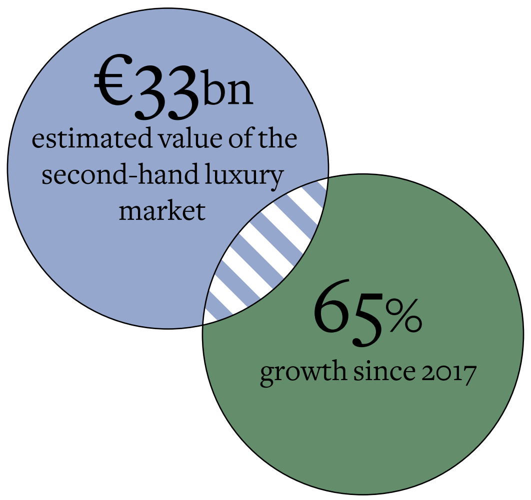
Funding and M&A activity INCREASED significantly in 2021, will this *translate* into store EXPANSION?

Deal activity across the board, both amongst the luxury groups and from venture and private equity funds, intensified last year highlighting luxury's relative resilience through the pandemic.

While there were several high-profile deals, activity was very much focused on the fast-growing resale segment. However, we expect it will be the deal activity seen in the fashion, jewellery & watch segments that will translate into a greater number of new store requirements.

The pandemic may have generated significant operational and revenue challenges initially, but the resilience of luxury spend globally, once markets were able to re-open, meant that for well capitalised luxury groups it presented opportunities. This is evidenced in the significant increase in M&A and funding activity in the luxury space in 2021. Value wise volumes were up almost 18 times on 2019 to total in excess of $30.9 billion. A large part of this can be attributed to the US$15.8bn acquisition of Tiffany & Co by LVMH that completed in early 2021. But, even on a deal count basis activity was still over twice that seen in 2019.

Based purely on deal activity, the most active part of the market was the luxury resale and rental space. This segment reported 19 deals, with the majority of targets focusing on luxury resale.



This increased activity aligns with the expansion in luxury resale. Bain & Company estimate that the second-hand luxury market reached €33 billion in 2021, a 65% growth on 2017 levels and exceeding the 12% growth seen in the first-hand market.

While the total value of funding in the resale segment was relatively low compared to others, key events include US based watch reseller WatchBox securing a reported US$165 million of development capital. In the UK, The Handbag Clinic secured an estimated US$128m of venture capital.

Beyond the resale market, fashion and jewellery were the most active on a deal count basis and were the segments where the luxury groups and other luxury brands were the most active. In contrast, the resale segment was dominated by non-luxury VC and PE funds. Key deals include the purchase of a majority stake in Etro by L Catterton, the private equity vehicle backed by LVMH and the family holding company of Bernard Arnault for a rumoured €500 million. Likewise, LVMH Luxury Ventures acquired a minority stake in Phoebe Philo's soon to be launched new brand. Richemont acquired Maison Delvaux for an estimated €250 million. Moncler also took full ownership of Stone Island parent, the Sportswear Company, acquiring the remaining 30% of the business it did not already own for an estimated €345 million. Beyond the Tiffany & Co acquisition, notable jewellery deals include Vashi securing an estimated US$50 million in VC funding.

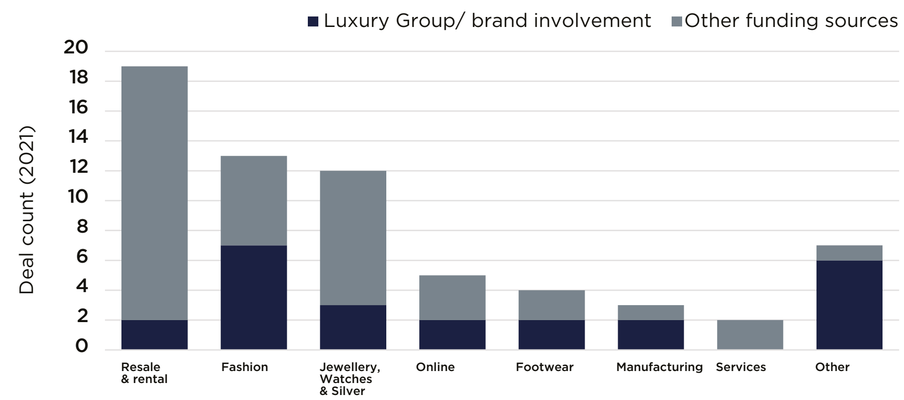
WILL THIS INCREASED DEAL ACTIVITY TRANSLATE INTO STORE ACQUISITIONS?

While luxury resale dominated deal activity on a count basis this is unlikely to translate into significant store requirements. There are several resale platforms that operate physical stores; however, the focus is likely to remain centred on online platforms.

Where we expect to see activity is amongst those luxury brands that have been acquired or are now backed by larger luxury groups.

Delvaux for example opened four new stores in China in the latter part of 2021 having been acquired by Richemont in mid-2021. Likewise, there has been a flurry of new openings by Tiffany & Co over the second half of 2021, albeit some of these new stores may have already been in the pipeline prior to their acquisition.

Luxury M&A and funding deals (2021)



Source: Savills, PitchBook Data Inc.
(Data has not been reviewed by PitchBook analysts)

VIEW FROM LONDON

Anthony Selwyn
Co-head of Prime Global Retail team

Walking down Bond Street it's very clear that luxury is alive and well again in London's premier luxury location. The challenges of the last couple of years have given brands an opportunity to re-strategise their store portfolios and obviously strengthen their online platforms.

Despite this strategic review and focus on online we have continued to see confidence in London's Bond Street as a premier luxury destination with brands such as Loewe, Brunello Cucinelli, Versace and Celine all recently opening stores on the street. These will be shortly followed by Balenciaga and Gucci opening new flagships on the street in late summer 2022.

Brands thrive in locations that also have supporting quality and with St Regis opening its first London hotel on the former Westbury hotel site just off Bond Street in late 2023, following on from the nearby opening of Mandarin Residencies, all bodes well for Bond Street's luxury profile.

139 NEW BOND STREET

KEY *trends* SHAPING LUXURY retail *destinations*

The focus on major domestic markets will be the key trend shaping physical luxury retailing in 2022. However, there are several other trends shaping the wider luxury space that will also have a bearing on physical retailing.

1. ESG moving up the agenda

Rising importance of ESG will require landlords to address the efficiency of their real estate as well as present new occupiers

A number of luxury brands already have climate commitments in place and in some cases these may become more ambitious going forward. While existing targets and commitments tend to be focused on supply chains, where the challenge is the most acute, we could see these commitments start to shape store portfolios.

To date, environmental performance of a building has had little to no impact on store selection. Rather, the biggest determinant of site selection are unit specifics and profile of the location. As a result, there has been relatively little focus on 'greening' stores. We expect this will change. Brands have already started to address environmental performance as part of their fit-out, and where they are the owners, addressing it through extensive building refurbishments. Occupiers are likely to become more demanding of their landlords in terms of the environmental performance of their stores and of their ESG aspirations, something that is becoming increasingly common in the office sector.

The rising importance of ESG is also generating new luxury segments and occupiers. The growth in luxury resale is supported in part by rising consumer awareness around sustainability. Considering the level of funding activity seen in this space some of these resale platforms will look to establish physical stores. In addition, we are seeing the emergence of new sustainability focused brands that will also look to take stores.

2. Online and physical to become increasingly interconnected

It is already well understood and appreciated that luxury online and physical platforms need to work together to drive sales. Considering the growth in online during the pandemic, the role of the store in showcasing products and delivering a luxury experience, to the benefit of both in-store and online sales, is likely to be even more important. For example, brands have harnessed their physical spaces for social media content, others experimented with live stream shopping events and/or personalised video shopping during the pandemic.

But, we are also seeing the online world deliver new luxury store requirements. As already highlighted, the growth in luxury resale could see some online platforms move into physical retailing. The much talked about metaverse will also generate new occupiers for luxury destinations. For example, we have seen NFT art galleries, exclusively operating in the metaverse, start to establish physical galleries in several luxury destinations around the world. Miami based NFT gallery Blackdove opened Miami's first physical art gallery in the city's design district in 2021, an area which is also home to a number of luxury brands. We explore what the metaverse means for luxury and physical retailing in more depth opposite.

3. Brand elevation and decline in wholesale to deliver new types of luxury occupiers and store requirements

Luxury brands have been pursuing more direct sales control for several years by reducing wholesale distribution. Bain & Company estimate that wholesale accounted for 51% of personal luxury goods sales in 2021, down on its 60% share in 2019. In 2010 it accounted for 72% of sales. This reduction in wholesale has seen brands expand and develop their own monobrand stores and online channels, which we expect will continue.

This shift away from wholesale is also being seen in some parts of the non-luxury market, helping to support brand elevation, a common trend amongst brands such as Nike and Adidas. The blurring of these brands with streetwear, which itself has become blurred with luxury, alongside collaborations with names such as Louis Vuitton, Prada, Alexander Wang and Balmain has further elevated these brands.

To date we have not seen streetwear brands or global sports brands look to establish stores directly in core luxury pitches. However, in some markets we have seen increased proximity, with these brands gravitating towards luxury areas, a trend we expect will continue.

$50bn
Forecast value of the virtual luxury world by 2030

$4,000
cost of the virtual bags sold in Gucci's Roblox pop-up

BALENCIAGA FORTNITE COLLABORATION

KEY TREND

The metaverse, an opportunity or threat to physical luxury destinations?

The appeal of owning virtual products has grown exponentially in recent years, presenting retailers with opportunities to generate additional revenues with Morgan Stanley forecasting that the virtual luxury world could be worth $50 billion by 2030. While the metaverse (the decentralized, virtual universe) is still being developed, luxury brands are already generating virtual product sales. Within the gaming universe Burberry sold playable Non-Fungible Tokens (NFTs*) on Mythical Games generating almost $400,000 in sales. Balenciaga released avatar outfits in collaboration with Fortnite, while Gucci's pop-up on Roblox sold virtual bags for up to $4,000.

The gaming world is not the only route to the virtual market, with digital marketplaces also selling virtual luxury goods. Dolce & Gabbana for example sold a nine-piece collection on curated NFT marketplace, UNXD, for $5.7 million. Roksanda created a number of virtual dresses that were directly available via the brand's website, a first to sell NFTs direct.

There are several obvious benefits for brands. The metaverse presents an additional income stream, both at initial point of sale and the with the use of re-sale clauses (such as revenue shares for future transactions). The lack of raw materials used while developing virtual products also means it is more profitable as well as being more sustainable. It also offers brands an opportunity to connect with younger consumers.

So, will virtual luxury products replace physical luxury and diminish the need for stores? It is highly unlikely. The popularity of luxury brands within the virtual world is owed to their real-world appeal. Hence, if a retailer's real-world relevance weakens, their virtual appeal will similarly diminish.

Meanwhile, some brands are merging the physical and virtual worlds. For example, acquiring a Dolce & Gabbana DGFamily Box will unlock both digital and physical benefits, including exclusive product releases and experiences.

The gap between virtual and physical product is also likely to diminish, as brands begin trialling designs to online audiences, with successful designs potentially leading to real-life product lines.

Once the metaverse is fully developed it will provide luxury brands multiple platforms to grow consumer engagement whilst unlocking new revenue opportunities, but not to the detriment of physical luxury.

*NFT definition: a non-fungible token, or a unique virtual asset (which can be anything from clothing designs to music) of which its ownership and authenticity is verified via blockchain.

SAVILLS GLOBAL LUXURY RETAIL

Savills Luxury Retail Highlights

144-146 NEW BOND STREET, LONDON

HOHE STR. KÖLN

STEINWAY & SONS HARBOUR CITY, SHANGHAI

DEJI PLAZA, NANJING DEJI PLAZA NANJING

TIFFANY & CO, ORTEGA Y GASSET, MADRID

89 RUE DES MARTYRS, PARIS

LOUIS VUITTON, HANOI, VIETNAM

PATRIZIA PEPE, DÜSSELDORF

KÖNIGSALLEE, DÜSSELDORF

PRADA, SERRANO, MADRID

CHRISTIAN DIOR, HANOI, VIETNAM

SAVILLS GLOBAL LUXURY RETAIL

Savills Luxury Retail Highlights

WESTFIELD, SYDNEY

UFUN, CHENGDU

RUE SAINT-HONORÉ, PARIS


WF CENTRAL , BEIJING


GOETHESTRASSE, FRANKFURT

KÖNIGSALLEE, DÜSSELDORF

CANTON RD, TSIM SHA TSUI


SHANGHAI TOWER, SHANGHAI

CELINE, GOETHESTRASSE, FRANKFURT


6-8 OLD BOND STREET, LONDON

SWAROVSKI FLAGSHIP, HONG KONG PLAZA, SHANGHAI

Looking to 2022 & BEYOND

New store openings to remain focused on key domestic markets for the remainder of 2022

We expect the rationalisation of store footprints in mature markets to continue to slow, with global footprints likely to expand driven by new store activity in large domestic driven markets in China and the US. In China, its top tier cities will be a top priority. However, it will be those emerging cities beyond the top tier that are likely to provide more opportunities as will emerging markets in the wider region. The Middle East will also move up the agenda as brands continue to explore the opportunity for directly owned stores.

However, over the short term, this activity may be more subdued than that seen in 2021 due to new Covid uncertainty and inflationary pressures, issues we explore in more detail later in this report.

International destination markets to move up the agenda as we move into 2023 and the recovery in international travel gathers pace

Current forecasts from Tourism Economics suggests that global international air passenger numbers will not return to pre-Covid levels until 2025. This masks major regional differences with Europe and North America forecast to see a faster recovery with a return to pre-Covid levels in 2024. In contrast cross border arrivals in the Asia Pacific region are not expected to return to pre-Covid levels before 2025 as China outbound tourism, the major source market for the region, remains restricted.

This recovery trajectory suggests that key destination markets in Europe and North America could see a further resurgence in requirements from luxury brands as we move into 2023.

Examining the fundamentals of destination markets will be key to prioritising opportunities

While the pandemic had an unprecedented impact on luxury destination retail markets, the fundamentals that made markets attractive have not changed significantly, assuming a return to pre-Covid international travel trends. This is evidenced in our Luxury City fundamentals ranking.

New York and London continue to top the ranking, a reflection of their size, international visitor appeal and relative affluence of their residents. For example, these two cities have the highest number of ultra-high net worth individuals (UHNWI*) resident.

Beyond the top two the ranking is dominated by Asian cities. China has two of its top tier cities featuring in the global top 10, Shanghai and Beijing. This aligns with the importance of Chinese consumers to the global luxury personal goods market, with 21% of sales last year taking place in China, bolstered by last year's travel restrictions. Bain & Company forecast that the repatriation of Chinese luxury spend will continue even once travel reopens, suggesting that China will be the world's largest luxury goods market by 2025. As a result, the appeal of China for store expansion is likely to intensify.

The Luxury city ranking is based purely on quantitative metrics and does not consider cultural or reputational factors. This is apparent in Paris ranking below Shanghai and Milan not featuring in the top 10. As both cities are home to several luxury groups and brands, they are major destination markets for international luxury consumers, therefore remain key markets for brand presence.

Key cities of note beyond the global top 10

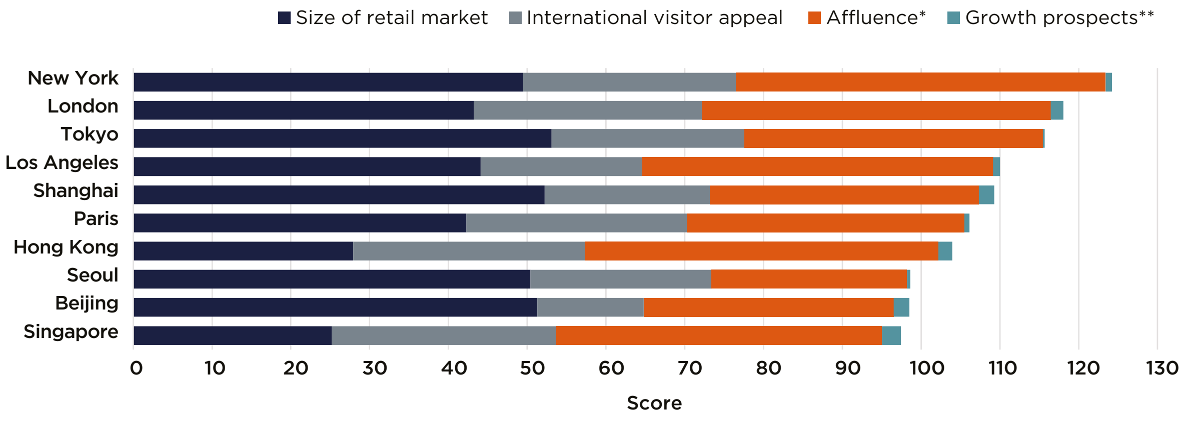
Beyond the top 10, there are several cities that are worth highlighting in regard to their wider region. In Asia, Osaka and Shenzhen fell just outside the top 10, ranking 11th and 12th respectively, with the latter having some of the strongest growth prospects globally. Key emerging markets in the region include Jakarta (17th) and Mumbai (22nd), both having large retail markets, with Jakarta having more UHNWI than several European cities.

Istanbul and Milan ranked highly in their respective European region despite not making the global top 10. In the case of North America, San Francisco and Miami are worth highlighting due to their relatively large affluent populations, and, in the case of Miami, its international appeal. Whereas in the Middle East Dubai remains the highest ranking city, followed by Riyadh in Saudi Arabia.

What does this mean for rents going forward?

On the whole prime retail rents in core luxury areas have shown a greater degree of resilience to the impacts of the pandemic compared to mass market retail locations. Despite this, for those luxury destinations more dependent on international tourism we have seen some degree of rental softening. For example, London's Bond Street saw indicative prime headline rents decline 16.7% between Q4 2019 and Q3 2021. For those other markets in Europe that saw declines over the same period, the average fall was -18.3%. However, half of the European luxury streets we track reported no change in prime headline rents.

Luxury city fundamentals ranking: Global top 10



Source: Savills Research, Oxford Economics, Euromonitor, Wealth-X
Note*: Affluence is based on number of households with incomes in excess of US$250,000 per annum with a particular focus on the presence of UHNWI, both primary and second home residents, and millionaires. UHNWI are those with net wealth in excess of $30 million excluding personal assets and property. Millionaires are those with net wealth in excess of $1m excluding personal assets and property. Note**: Growth prospects are based on forecasts for population, retail sales and GDP growth to the end of 2026.

VIEW FROM EUROPE

Daniel Kroppmanns
Head of Germany Retail Agency

Luxury has proved to be very resilient in Germany. Rents across all the major luxury locations across Germany have held at their pre-pandemic levels, in addition we have seen a resurgence in new store requirements. Watch brands are being particularly active with Dusseldorf and Munich being key targets. As a result of this activity we are seeing very competitive bidding for smaller units on core luxury pitches in these markets. But, with a number of new developments currently underway, there will be several new and exciting opportunities for brands over 2022 and into 2023.

Lisa Fitzgerald
Retail Advisory Spain

Madrid´s Serrano, home to Madrid´s "Luxury Golden Mile" managed to overcome the Covid-19 crisis due to the stability of a strong local market. As a result rents held at 2019 levels due to very high demand from retailers. In the case of Barcelona, Passeig de Gràcia, the city's most famous high-end international shopping street - the street characterized by Gaudí's fairytale buildings – has presented new and attractive opportunities to brands that had previously been unable to access it prior to the pandemic.

VIEW FROM MIDDLE EAST

Kenny Lam
Retail Advisory Middle East

Dubai is no longer just an emerging retail market. Dubai today is one of the most cosmopolitan cities in the world, home to over 200 nationalities. The importance of Dubai as an international market was highlighted by Louis Vuitton choosing it as the third city to host their “SEE LV’s 2022 journey” campaign after China.

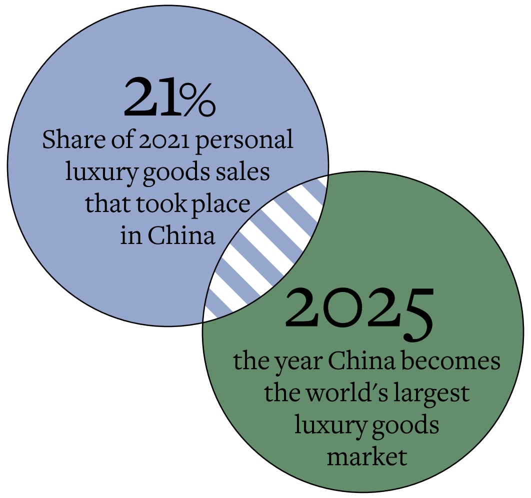
Many luxury brands are represented by monobrand stores through local franchise/partners but with the recent change in government policies we are seeing international brands come in directly looking to take back full control of their stores and operations.

We’re seeing a similar trend in Saudi Arabia. The country ’s luxury market continues to grow rapidly with forecasts suggesting luxury sales could reach $22.2 bn by 2024, reflecting an average annual growth rate of 7.2% between 2019 to 2024. As a result, we are seeing many luxury brands buying back their businesses. Many are setting up offices with full teams in Saudi, thus becoming independent from the offices in Dubai and becoming country headquarters. As a result, there is an increased amount of activity that's happening on the ground, brands are now able to activate, they can do events.

Hong Kong, heavily reliant on Chinese tourism, also saw prime headline rents in its most desirable luxury area decline 50.0% between Q4 2018 and Q3 2021.

In contrast, large, domestic driven luxury markets, namely in the US and China, have reported headline rents in line, or above, pre-pandemic levels. In Shanghai, for example, Q3 2021 prime headline rents in its premier luxury area of Nanjing Road West were in line with Q4 2019 levels.

While rental levels will not determine the attractiveness of a market for store acquisitions, for those cities that have seen a softening in rents and/or increased landlord incentives, there could be a potential opportunity for expansive luxury brands.

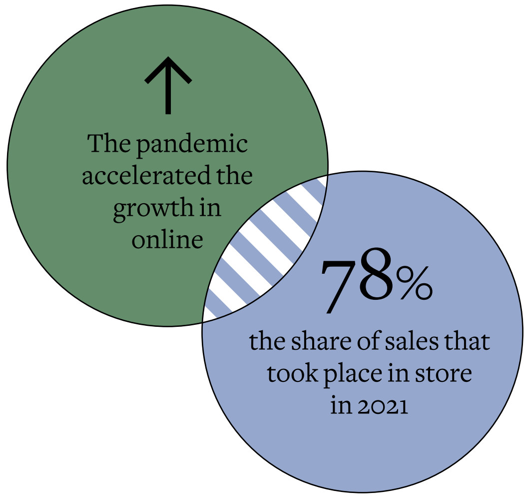


In terms of rental outlook, we expect to see the return of rental growth in Europe in 2022/23, supported in part by a return in international visitors. In Asia, beyond China, where we have seen rental declines in response to the pandemic, the recovery is likely to take longer as travel within the region is expected to see a slower revival than that in Europe.

But, there are short-term headwinds to watch out for

2021 did surprise on the upside with global luxury personal goods spend and profitability recovering to 2019 levels according to Bain & Company, which was reflected in some very healthy results from a number of luxury groups. While the medium term outlook for personal luxury goods spend remains positive, there may be some short-term headwinds. These headwinds could temper spend growth and with it brand confidence to open new stores. In turn this may mitigate rental growth expectations.

So, what are these headwinds? In China there has been a recent surge in Covid cases, meaning the return of domestic travel restrictions and local lockdowns, which will undoubtedly have an impact on luxury spend. In addition, global inflationary pressures could dampen luxury spend and brands' profit margins. All of which could slow new store acquisitions. Likewise, supply chain issues may also temper confidence and the ability to open new stores over the short term.



In the case of inflation, however, this should be relatively short-lived. Oxford Economics forecast that global inflation will peak at 7.2% in 2022 before returning to more normal levels in 2023 to average 2.9% per annum through to 2025.

Despite these headwinds, and growing upside risk around these, we still believe the fundamentals for growth over the medium term remain positive. This is supported by forecasts for economic growth, which is closely correlated to luxury spend historically. For example, global GDP is still forecast to expand by 3.4% in 2022, and while it will slow to 3.2% in 2023 and 2024, this will still outperform 2019 GDP growth.

Looking further ahead, and from a store perspective, the biggest question is around the growth in online and what this means for physical luxury retail. The pandemic accelerated the growth in online but the majority of sales in 2021 (c.78%) continued to take place in store, with a growing share of this transacted in monobrand stores. This highlights the ongoing importance of the store in raising brand profile and delivering a 'luxury' experience, also to the benefit of online sales. Likewise, the evolution of the metaverse as a route to deliver new income streams and engage with younger consumers, will also have a basis in the physical.

While stores will continue to be a fundamental element of the luxury experience, we could start to see a marked divergence in strategies across different geographies globally. In large domestic driven markets for example, such as the US and China, we expect to see increased activity in relatively under-served markets but where the fundamentals in terms of size and affluence are robust. Likewise, domestic resort markets in these countries will also move up the agenda. However, the appeal and importance of core destination luxury markets globally, and their premier luxury areas, remains unchanged.

VIEW FROM CANADA

Jordan Karp
Head of Canadian Retail Services

Despite some of the longest lockdowns in the world, the three luxury powers of Kering, LVMH and Richemont continued to invest heavily in Canada by opening new stores and reinvesting into flagships. In Toronto's tony Bloor Yorkville neighbourhood, wider investment in the area, such as the multi-million dollar overhaul of Holt Renfrew department store and the reopening of Park Hyatt after an extensive renovation, has coincided with renewed store activity.

Exclusive Italian luxury menswear Isaia opened its first store in Canada in Yorkville, steps away from where Kering opened one of its few Balenciaga X Gucci Hacker Project stores; the space is now under renovation as Balenciaga's flagship. Other new entrants to the area, and to Canada, include Anne Fontaine and Alexander Wang. But, it's not just Toronto and Vancouver street fronts that have seen recent activity, we've seen new openings in Canada's top producing shopping centre, Yorkdale, as well as in West Edmonton Mall and Calgary, highlighting confidence in Canada's wider luxury market.

SAVILLS GLOBAL LUXURY RETAIL

Key Contacts

GLOBAL LUXURY TEAM

Savills dedicated Global Luxury Retail team has a wealth of experience and a comprehensive understanding of the luxury retail sector, enabling us to regularly advise and transact on behalf of our clients within this highly specialist market.

If you would like further information on how Savills Global Luxury Retail team can help you, please do not hesitate to contact one of our experts across the globe: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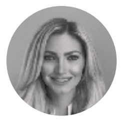
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