2024 OUTLOOK

Global Luxury Retail

LOCALISATION AND THE EVOLVING GLOBAL LUXURY LANDSCAPE

savills

Welcome to the

Savills Global Luxury Retail 2024 outlook

Words by

Anthony Selwyn

Marie Hickey

SAVILLS PRIME GLOBAL RETAIL TEAM

Over the last eight years of tracking and analysing luxury store expansion globally we have seen the customer become absolutely central when it comes to real estate strategy. Not just in terms of the store and brand experience but also in terms of the geography of new stores, evident in a greater focus on 'local' market fundamentals and that of specific opportunities.

And while there are headwinds facing the global luxury retail market these will likely prove cyclical, reflecting a normalisation in spend. Perspective is needed as there has been no material change to the fundamentals driving luxury spend, forecasts still point to average annual growth of between 4% to 8% by 2030 (Bain & Company). Likewise, store expansion slowed last year on the back of a sharp acceleration post pandemic. But, this was not universal across all markets. On pages 1 to 2 we explore some of these regional nuances.

The greater focus on the customer did mean we saw resort market expansion continue last year as brands looked to gain greater exposure in locations where their customers live and play. This does come with its challenges, namely the limited access to appropriate real estate. We delve into how luxury hotel expansion may help to mitigate some of these availability pressures and what it could mean for luxury retail spend on page 5.

What about the future? What are the cities with the local fundamentals to appeal to expansive luxury brands? We try to answer these questions on pages 11 to 12 looking at future market size and affluence relative to current luxury provision across some of the world's biggest cities to highlight those markets relatively underserved.

We also ran a deep dive into the Middle East region on pages 15 to 16, a region that has been moving up the agenda for expansive brands.

Despite the headwinds facing luxury spend, real estate remains a key battleground for luxury brands, with property acquisitions hitting a new high. Pages 19 to 21 explore these investment and rental trends.

Our connected global team, unrivalled knowledge of brand requirements, thought leadership and market intelligence from our specialist luxury retail research team means we have a unique global offering. An offering that allows us to advise on locations, values and key property criteria throughout all major markets across the globe. The geographical changes and expansion of luxury into new territories is very exciting, no doubt we will be commenting on new emerging markets in Africa in our 2025 edition.

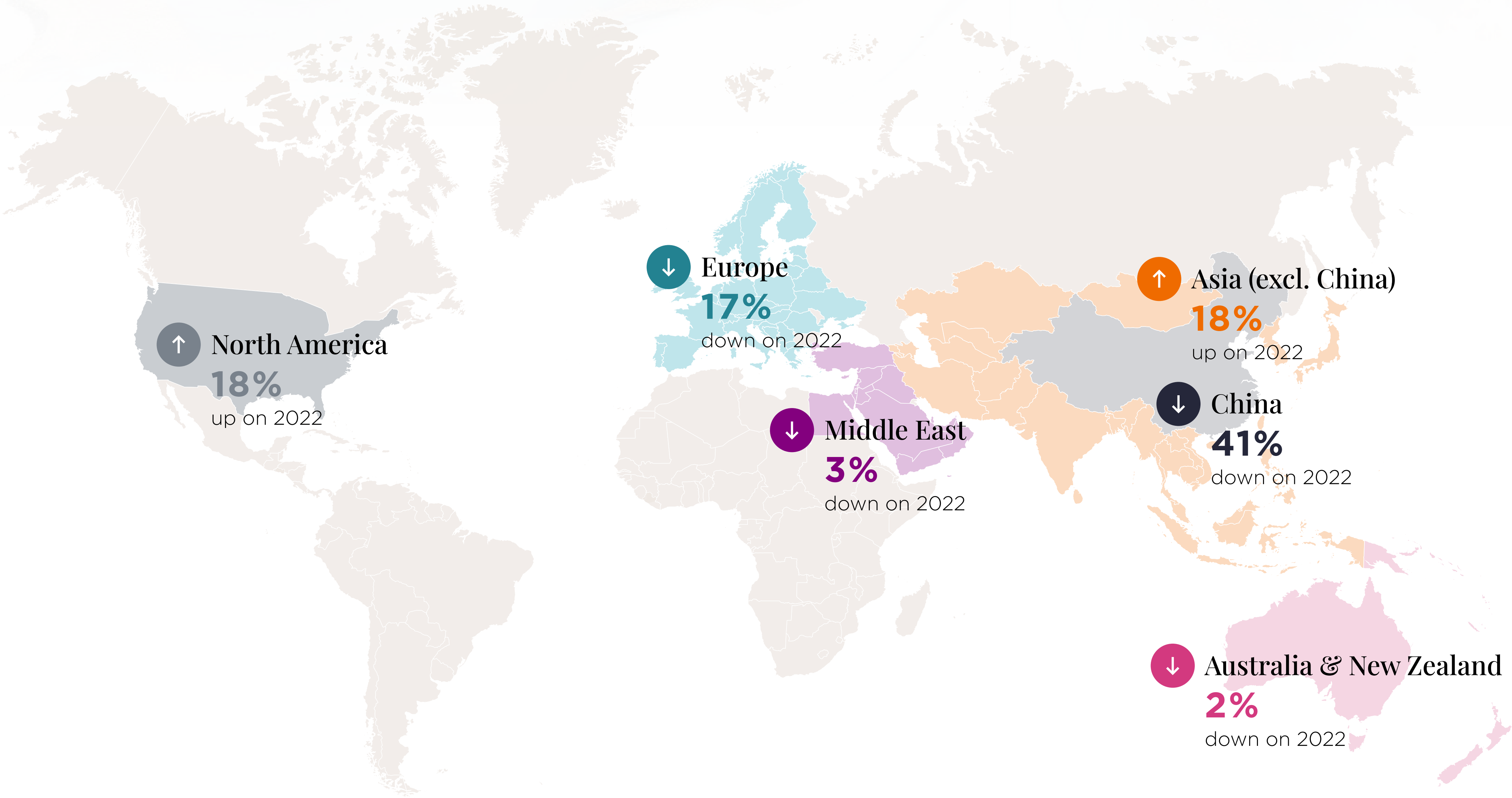
Contents

Slowdown in store expansions in 2023, but some regions *bucked the trend*

The global slowing in new store openings was expected, but we did see an acceleration in new openings in North America and the wider Asia Pacific region beyond China.

2023 REGIONAL SHARE OF LUXURY NEW STORE OPENINGS

(arrow indicates change in global share compared to 2022)



Source: Savills Research (Note: new store expansion analysis excludes concessions, pop-ups, relocations, upsizing and re-openings after refurbishments).

New store openings by luxury brands did slow in 2023 as expected considering the acceleration in 2021 and 2022, with numbers down 13% year-on-year.

China, the engine of store expansion, continued its dominance accounting for 41% of all new openings globally. The number of new openings, however, was down 12%. Weaker Chinese consumer confidence, and with it domestic spend, is now exerting an influence on occupier confidence in the country, something we expect will be reflected in new store activity through to early 2025.

China may have slowed but the wider Asia Pacific region, with a global share of 17%, reported an increase in store activity (wider Asian region share was 18%). Tokyo and Singapore were key drivers of this increase helped by improving regional tourism, which has been boosted by a relaxation in tourist visas for Chinese nationals. In the case of Japan, the favourable currency exchange has also come into play with LVMH citing a 32% increase in performance due to a weak Yen and tourist inflows in its Q1 2024 financial update.

North America was another region to buck the wider trend. New store openings were up 12% on 2022. New York and Los Angeles were the principal hotspots of activity with the former being the key driver of growth. Beyond these top tier cities there remained activity across a wide number of large affluent, domestic cities in the US, reflecting the continued focus by a number of brands to get closer to their customers.

Europe and the Middle East saw their share of global new openings in 2023 squeezed, largely in response to a slowing in new openings. Unlike China, however, this slowdown was not influenced by a softening in occupier sentiment but rather a squeeze in availability in core luxury destinations. Dubai for example, the key driver of store activity in the Middle East, has seen significant growth in luxury spend due to improving tourist inflows and an influx of High-Net-Worth Individuals (HNWI) buying residential property.

GEORG JENSEN

108 New Bond Street

Jordan Karp

HEAD OF CANADIAN RETAIL SERVICES

The recognition that there is a wealthy resident customer base in Canada, alongside a growing international visitor appeal, is intensifying occupational demand beyond the core downtown luxury pitches.

From High Streets to the suburbs, Canada continues to see an unprecedented expansion of international luxury brands. Demand continues to outpace supply, both from brands with an established presence and those that are new to market. Driving the demand is the return of international tourism and equally if not more important, the recognition of a local and national wealthy consumer base with the ability and willingness to spend.

On the street, the "turf war environment" between the luxury powerhouses of LVMH, Kering and Richemont in Toronto and Vancouver, drove the rents up and fuelled an expansion of the luxury zones from their traditional boundaries. New flagship openings in 2023 on the prime block of Bloor Street included Ferragamo, Rolex, Van Cleef & Arpels, and Alexander Wang. This has continued into 2024 with the recent opening of Saint Laurent's 10,000 sq ft store, soon to be followed by Loro Piana's first Canadian store. Most notably, Tiffany's signed a lease to relocate their Canadian flagship to arguably the most important retail corner in Canada: Bloor Street and Bay Street. Construction is slated to commence in May 2024 with a scheduled opening in winter 2025.

In Canada, unlike south of the border, luxury retailers have been razor focused on core downtown luxury pitches with suburban, more 'local' destinations having little appeal. However, there are exceptions to this. Yorkdale Shopping Centre in Toronto, Canada's most productive mall, which boasts retail sales well over $2,400 per sq ft, is in the process of adding over 100,000 sq ft of luxury retail floorspace. Once complete in early 2025, luxury retailers will account for almost 20% of the CRU, up from 13% a few years ago, and will include the first Loewe flagship in Canada.

Other notable 'local' focused schemes include Oakridge Park in Vancouver, slated to open in Q1 2025 and recently announced their first list of luxury curated apparel brands that include the finest including Chanel, Louis Vuitton, Prada, Ferragamo, Brunello Cucinelli, Max Mara, Miu Miu, Moncler, Christian Louboutin, and Maison Margiela to name a few. For many of these brands, these new flagships in this tiny suburb will be in addition to their existing downtown flagship stores and/or concessions in Holt Renfrew.

The expansion into the suburbs is not confined to Toronto and Vancouver. Royalmount in Montreal, slated to open in Q2 2025, will have a luxury wing that will be the future home to Louis Vuitton and Tiffany's. Finally, there is an acceleration in terms of deal makings, store openings and the growing emergence of a luxury presence at West Edmonton Mall and CF Chinook (Calgary).

The expansion of luxury brands in Canada sees no signs of slowing, in fact it is the opposite as the growing return of international tourism and the appetite for luxury goods from the national consumer continues to be unprecedented.

Resort markets maintained their appeal to expansive luxury brands in 2023

The continued appetite from brands to get close to where their customers live and play meant resort markets was the only market type not to see a slowing in new openings.

Nearly all market types saw a slowing in new store activity in 2023. This was most pronounced for Global Alpha Cities with new store activity down 14% year-on-year, albeit much of this is down to availability constraints in European Alpha cities rather than reflecting a change in strategy by luxury brands. Domestic focused markets, largely in China, also saw activity slow.

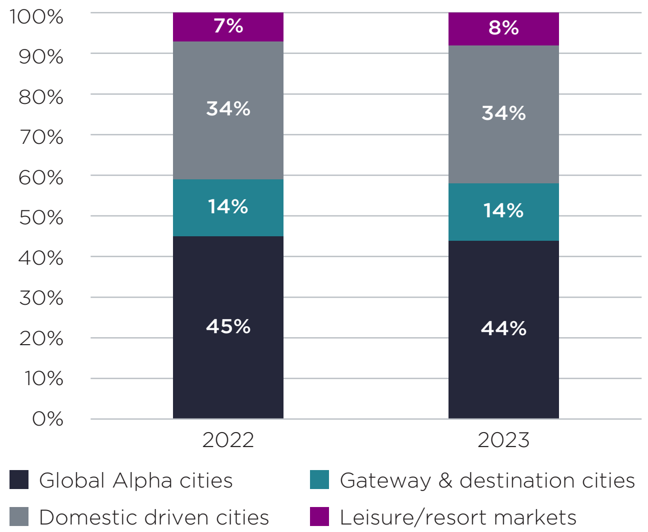
The only market type to buck this trend were resorts. With new openings on a par with that seen the previous year meant its share of new openings globally increased to 8%, highlighting the continued strategy by a number of luxury brands to get closer to where their customers live and play.

In terms of the geography of these resort markets, European destinations accounted for a sizeable 26% share. But it was China that dominated with significant activity on Hainan Island, strengthened by its duty free status, that further showcases the continued importance of Chinese luxury consumers even in the face of the current softening in domestic spend.

The challenge of resort market expansion however, is access to appropriate real estate. While Hainan Island has seen a number of retail developments in recent years, reflected in the store expansion data, this type of development is largely unfeasible/unsuitable for resort markets resulting in a focus on existing constrained high street locations. In the case of Europe, this challenge may be resolved, to a certain extent, by new luxury hotel development in resort markets that encompass ancillary retail space.

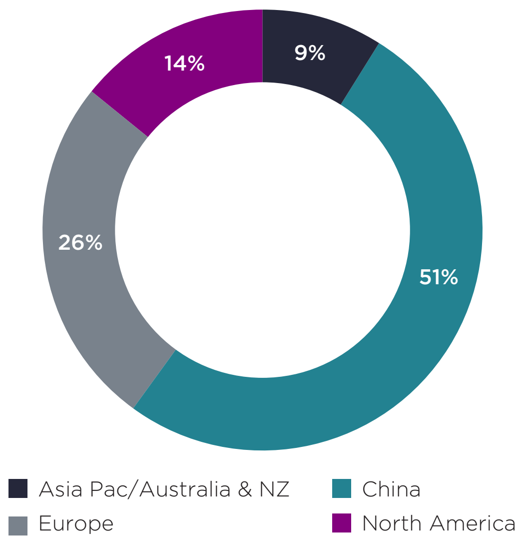
Ultra luxury hotel room supply in European resort markets is set to increase by 10.3% by end of 2028. This broadening footprint of ultra-luxury hotels holds several benefits for expansive luxury retail brands looking at these markets; the first is bringing more wealthy travellers into these markets, the second is their potential to deliver retail space as part of the wider hotel development into what are often highly constrained markets from a retail perspective or in some cases have no existing high-quality retail offer.

FIGURE 1: NEW OPENINGS BY MARKET TYPE



Source: Savills Research

FIGURE 2: NEW OPENINGS IN LEISURE/ RESORT MARKETS BY REGION



Source: Savills Research

Larry Brennan

HEAD OF EUROPEAN RETAIL AGENCY

Brands are looking beyond pop-ups and committing to select resort markets to enhance engagement with customers.

Whether it's winter sports or a beach holiday, having access to a breadth of retail offerings remains a key priority for holidaymakers. In Europe's wealthy ski and summer hotspots, luxury retail in particular has capitalised from this trend by venturing further into our leisure time.

Luxury store openings in resort markets doubled between 2022 and 2023; almost four times the average global rate pre-pandemic. Designer brands including Alexander McQueen, Balenciaga, Burberry, Bvlgari and Zimmerman have joined the major brands of LVMH, Richemont and Armani, in strategically choosing leisure destinations to connect with their target audience.

This increase is a factor of both brand demand and increased supply as luxury resorts and hotels increasingly look to maximise their real estate by creating retail opportunities on campus to satisfy their guests' needs.

Pop-up stores provide a multifaceted approach that make the temporary presence of the brand in a holiday location a memorable and shareable experience for customers. Louis Vuitton opened two pop-up boutiques at Zuma Mykonos in 2023, which stocked its limited, exclusive summer collection. But it didn't start and end with the retail launch, with the brand also rolling out its takeover of the resort's pool location as part of its LV By the Pool campaign.

Locating and aligning with the resort markets also allows brands to expand their ranges and product offerings – a great example being the Armani Neve range which was backed by a pop-up property strategy covering European resorts including Courchevel, St. Moritz, Crans Montana and Megève.

It's not just about retail pop-ups. Savills research into alpine destinations reveals that Aspen, Colorado, has the highest number of permanent luxury stores, with nine major brands from Ralph Lauren to Van Cleef & Arpels, Dior and Louis Vuitton. Over the pandemic, luxury retailers that once looked to the alpine destinations for seasonal pop-ups started progressively committing to larger, long-term brick-and-mortar spaces; new entrants include Balenciaga and Overland Sheepskin Co.

Looking ahead, leisure travel is still in growth mode. Brands that are tapping into the high levels of footfall while carefully aligning themselves to the seasonal and cultural context of ski and summer hubs, inevitably strengthen their identities on the international stage.

10.3%

Increase in ultra-luxury room supply in European resorts by 2028

LOCALISATION OF LUXURY

The key trends

When it comes to real estate, the evolving strategy of brands has placed the customer absolutely central. Not just in terms of the store and brand experience, but also in terms of the geography of store expansion and use of various brand concepts to enhance customer engagement. Detailed below is a summary of some of the emerging trends in the luxury real estate space in response to this localisation.

RISING APPEAL OF LUXURY RESORTS

Luxury travel had a global market value of US$1.2 trillion in 2021 with forecasts suggesting this could increase by 7.6% per annum by 2030 (Deloitte, Future of Luxury Travel 2023). This rate of growth would be at the upper end of that forecast for spending on personal luxury goods demonstrating the evolution in wider luxury spending trends and the desire of brands to capitalise on these. From a store perspective this has historically meant a focus on cities with large international tourist arrivals such as London, Paris and Hong Kong. This will continue to be the case; however, sun and ski resorts markets are moving up the agenda supported in part by the growing footprint of ultra-luxury hotels in resort markets. The extended seasonality of some resorts, alongside residential development for second homeowners, is also influential as it is translating into a larger, less transient customer base in these locations.

BLURRING OF LUXURY GOODS AND LIFESTYLE CONCEPTS

The foray of luxury groups and brands into hospitality, primarily through hotels, is nothing new. What is a more recent and evolving trend has been the creation of restaurant and café concepts, either within existing stores or as stand-alone concepts. Recent examples of this include the Tiffany & Co Café and Armani Caffe both opening in Dubai Mall in 2023. We are seeing some luxury brands, beyond the traditional fashion and jewellery cohorts, take this a step further by emerging as true lifestyle luxury concepts. RH is a prime example of this, their 'galleries' are not just places to showcase product but are true destinations encompassing a club-like feel with an extended hospitality offering. This commitment to hospitality evidenced in their appointment of a former Soho House Exec to be chief real estate & development officer for the brand.

(RE) EMERGENCE OF DOMESTIC FOCUSED LUXURY LOCATIONS

The pandemic and with it the confinement of luxury spend domestically has helped highlight the potential appeal of relatively underserved markets with a highly affluent resident population. Markets such as Saudi Arabia in the Middle East, US cities such as Atlanta and Dallas, and in China, Wuhan and Hangzhou, stand out in terms of their size, relative wealth and appetite for luxury goods. This was also the case for some smaller European cities, such as Dublin and Munich. But, beyond the rising prominence of domestic focused cities, we are also seeing the emergence, or rather re-emergence of domestic focused locations within major luxury cities/conurbations. Examples include New York's SoHo district, London's Sloane Street and satellite cities to Los Angeles such as Santa Ana and Thousand Oaks. What all these locations share is a concentration of wealthy residents, whereas pre-Covid occupier appetite would have been largely focused on a city's core luxury destination such as Madison/Fifth Avenue in the case of New York and Bond Street in London, an increasing number of brands are adopting a more nuanced approach looking to both core luxury and affluent neighbourhoods for opportunities.

Cameron Scott

HEAD OF CENTRAL LONDON AGENCY, UK

Its concentration of super wealthy residents, curated retail and hospitality offer, and enhancement of its public realm will continue to elevate Sloane Street's allure to luxury consumers and brands alike.

The entrenchment of agile working, coupled with the growing preference of luxury brands to get ever closer to their customers, has seen spend and interest in London's Sloane Street and surrounding area gather pace over recent years. The fact that the local residential profile is one of the most affluent in the UK, if not Europe, has been absolutely pivotal in driving increased levels of engagement with luxury groups and brands. Recent new flagships include Dior, Saint Laurent, Valentino and Brunello Cucinelli. This further enhanced the superb luxury tenant mix on the street which includes Louis Vuitton, Gucci, Loro Piana, Tiffany, Cartier, Chanel, Versace and Hermes amongst many other leading luxury brands.

With its high quality neighbourhood offering, strengthened by the redevelopment of Pavilion Road which has increased the depth of food offering in the area, alongside world renowned luxury hotel brands such as Belmond, Mandarin Oriental and recent addition Hotel Costes, means that it is often likened to Avenue Montaigne in Paris or the best part of Madison Avenue in New York.

The Cadogan Estates discerning stewardship of the area has paid long term dividends. Their single ownership allows them greater control of the consumer offering and they have endeavoured to secure the best retail anchor tenants in each of their locations and clustering the best possible adjacencies. Their wider ownership has also provided brands with the canvas to create new and exciting concepts, as is the case with Anya Hindmarch and her revolving concepts centred around nearby Pont Street. This has all come together to enhance the area's attraction to luxury consumers but also to existing and expansive brands. This is only going to be strengthened further by Cadogan's £50 million investment in Sloane Street's public realm to create a stunning streetscape.

Who was the most *acquisitive* in 2023?

When it came to product categorisation, fashion & accessory luxury brands were the most expansive in 2023. But the only segment to see an acceleration in new openings was jewellery.

Fashion & accessory brands continued to be the most expansive in 2023 accounting for 63% of all new store openings globally. In line with broader global trends, we did see a slowing in new store activity across all categories, bar that of jewellery. New openings by jewellery brands was up 30%, albeit reflecting growth off a low base. This acceleration in activity, in percentage terms, was largely in the wider Asia Pacific region and focused on large mature markets such as Tokyo, Seoul and Hong Kong. Continuing the trend we have seen over recent years with fashion brands selectively expanding into Vietnam, we also saw a number of jewellery brands enter/extend their store footprint in Ho Chi Minh City.

+30%
Increase in new openings by jewellery brands globally

63%
Fashion & accessory brand share of new openings globally

BOLIA
Calle de Goya, 84, Madrid

Jorge Alonso-Allende Osborne

CROSS BORDER RETAIL, SPAIN

Growing tourism and an influx of wealthy second homeowners are shaping luxury retail across Spain's primary luxury destinations.

While Madrid and Barcelona remain key markets for expansive luxury brands in Spain, we have seen a growing appetite for opportunities in Spain's luxury resort markets. These luxury trends in secondary cities like Palma de Mallorca or Marbella reflect a unique blend of local culture, international influences, and the preferences of affluent residents and visitors.

While these cities may not be as globally renowned as major luxury capitals like Paris, Milan or London they have developed their own distinct luxury scenes, often tailored to their specific geographic and cultural contexts.

Palma de Mallorca has emerged as a luxury destination due to its stunning Mediterranean setting, historical charm, and affluent clientele. Luxury trends in Palma often revolve around high-end hospitality, including luxury hotels, boutique resorts, and upscale restaurants offering gourmet cuisine and fine wines. In terms of luxury retail, Paseo del Borne features boutique stores and designer boutiques offering luxury fashion & accessories. Brands like Louis Vuitton, Carolina Herrera or Escada.

Marbella has long been associated with luxury living, attracting affluent residents and visitors drawn to its glamorous lifestyle, upscale amenities, and Mediterranean climate. Luxury trends in Marbella encompass luxury real estate, with gated communities, luxury villas and waterfront properties being highly sought after by international buyers. And this is feeding through to luxury retail trends with Marbella's Puerto Banus being the key hotspot when it comes to recent luxury retail activity.

In summary, luxury in secondary cities like Palma de Mallorca, Ibiza, and Marbella reflect the unique characteristics and attractions of each destination, catering to affluent second home residents and visitors seeking premium experiences, accommodations, dining, and luxury shopping opportunities amidst beautiful surroundings and vibrant cultural scenes.

The dominance of the big luxury groups continued with the majority taking a more selective approach to store expansion.

The big three groups (LVMH, Richemont, Kering) continued to dominate new store openings globally in 2023 with them accounting for 40% of all new openings, up on their 32% share in 2019. OTB continued to move up the ranking driven by recent brand acquisitions and investments. Their recently quoted aspirations to list by Q1 2025 is no doubt also shaping this acceleration in new store activity.

40%
Combined share of new store openings globally by LVMH, Richemont and Kering

Identifying the *opportunity* markets of the future

The fundamentals for China expansion still look positive over the medium to long term; other large, relatively underserved markets also look interesting.

Examining new store openings by luxury brands helps us identify emerging trends in terms of expansion hotspots and the segments and brands who are most acquisitive. But, when looking to the future, understanding markets in the context of their size and affluence, in relation to current luxury provision, highlights markets that may be relatively underserved and could therefore be attractive expansion targets.

Figure 3 opposite identifies the 31 cities globally that are forecast to have a population in excess of 10 million people by 2028, and have an existing luxury provision, either through stand alone stores or concessions. These same cities have also been examined in relation to their future affluence as measured by GDP per capita (US$ PPP, 2028). The bigger the bubble, the greater the presence of luxury brands (number of retail locations).

Unsurprisingly, the biggest and most affluent cities of New York, Los Angeles, London, Paris, Seoul and Tokyo lead in terms of scale of luxury retail provision. The fact that many of these cities are major international tourist destinations will also have had a bearing on luxury retail provision.

But, there are a number of cities that stand out in regards their future relative size, affluence and current luxury provision. These include a number of Chinese cities, highlighting the strong fundamentals supporting store expansion in China despite current headwinds. Shenzhen, Wuhan and Hangzhou will be on a relative par with Japan's Osaka-Kyoto in terms of size and affluence by 2028 but are at present underserved in terms of luxury brand provision.

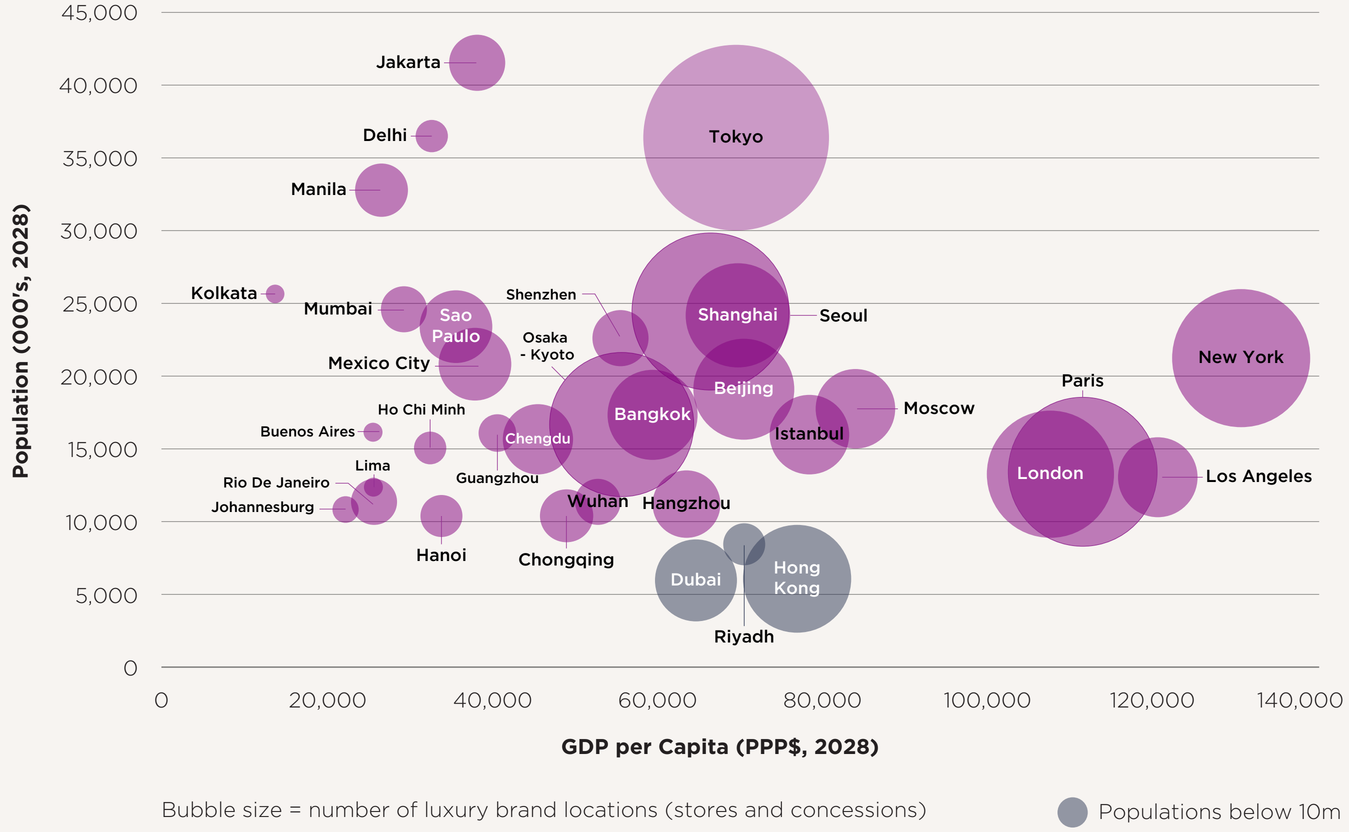
In the wider region, cities like Bangkok and Jakarta present as interesting potential opportunity markets. Bangkok's international tourist appeal, often featuring in the top five cities globally in terms of international arrivals, combined with a large, young population and fast growth economy, means it stands out as a potential opportunity market for expansive brands, particularly in light of its relative under provision against more mature markets in the region. Jakarta, another large, high growth economy and a country with almost double the number of Ultra-High Net Worth Individuals (UHNWI) residents as Thailand, Malaysia and Vietnam, the majority of which are concentrated in Jakarta, would appear underserved when benchmarked against Sao Paulo and Mexico City despite being a much bigger city.

India, often touted as the next China, stands out for future expansion particularly in light of economic growth and its large, young population. And with current provision in key markets such as Delhi and Mumbai lagging similar, if not smaller, markets in Latin America (Sao Paulo and Mexico City), there is a strong case for brand expansion.

LOUIS VUITTON
Hanoi, Vietnam

However, you need more than strong fundamentals to support brand expansion. Business transparency and the provision of high-quality real estate is key, and has been instrumental in driving store expansion in China. It will be those opportunity markets that can deliver on both these fronts where we are likely to see these strong fundamentals translate into new stores.

FIGURE 3: 10M+ POPULATION CITIES BY 2028



Source: Savills Research; Oxford Economics (population and GDP 2028 forecasts, brand presence as of February 2024)

Nick Bradstreet

HEAD OF ASIA PACIFIC RETAIL

Contracting luxury spend domestically in China is tempering occupational demand, but there remains confidence in the fundamentals in the region reflected in upsizing in key locations and the creation of salons for VIC's.

2024 is proving to be a challenging year for luxury across Asia. The first three months of the year has seen significant sales declines in China for most brands as a result of the slowing economy in the country. With residential prices falling, unemployment growing and stock market fluctuations in the latter part of 2023, most people are preferring to save their money rather than spend it. Only the super rich have the appetite to keep spending on luxury. Even domestic sales over Chinese New Year were disappointing. As a result of this brands are taking a more cautious approach to expansion, at least for the time being.

While the picture for Chinese luxury spend looks relatively challenged domestically, this is not being replicated across the wider region. Chinese New Year boosted sales across most of the APAC region as Chinese nationals took the opportunity to travel. Most countries benefitted but, in particular, Thailand, Singapore and Malaysia saw strong growth due to the relaxation of travel visas which made it much easier for mainland tourists to travel to South East Asia. Japan continues to see good growth having become the cheapest country in Asia to buy luxury goods due to the weak currency. Hong Kong and Macao also saw a good boost in sales over this period. Following Chinese New Year most countries have seen a pull back but are stable.

In terms of trends, brands continue to shed marginal stores while upsizing their best ones. Single storied shops are now moving to duplexes often with a triplex façade. Despite the expense the top luxury brands want to ensure they are a standout to their customers. This is most evident on Canton Road in Hong Kong where there is a wall of branded luxury facades along the Harbour City side of the street. The trend is also very visible at Marina Bay Sands in Singapore which has become the mecca for luxury in South East Asia. This trend has also gone hand in hand with the creation of Salons by a number of the larger brands, with the aim of attracting VIC's through the creation of an exclusive lounge environment. Where this evolution in store expression and experience hasn't happened yet the key landlords are partnering with the super brands to achieve the same and as a result a number of projects are on-going across the region.

DEEP DIVE

The Middle East's rising appeal

The Middle East luxury goods market, with a current value in the region of €15 billion in 2023, is forecast to double by 2030 according to Boston Consulting Group (BCG). The UAE, in particular Dubai, and Saudi Arabia are expected to be key drivers of this growth rooted in both markets attractive metrics in terms of affluence and size but also in their growing appeal as international tourist destinations.

The fact that Dubai and Riyadh are relatively underserved in terms of brand presence against Hong Kong, despite being similar in terms of size and affluence (see Key City Markets) further highlights the Middle East's growing appeal. This will be further exacerbated as the region develops as a major international tourist hub, with more direct connections into China and South East Asia compared to some European hubs.

Dubai has seen an influx of HNWI's, with Henley & Partners pointing to a 4,500 increase in HNWI in 2023, second only to Australia (+5,200). This, coupled with a strong recovery in international arrivals (+18% YoY), meant that Dubai ranked third globally in terms of international arrivals in 2023, behind Istanbul and London.

It is a combination of both these factors that has fuelled luxury spend in the Emirate over the last 18 months. And, while new store activity was relatively muted last year, this was down to constrained availability rather than weak demand.

The fact that a number of luxury brands upsized and/or carried out extensive refurbishment works of their existing stores in Dubai highlights the continued confidence in the location.

€30bn
Size of Middle East luxury goods market by 2030 (BCG)

+4,500
Increase in HNWI in Dubai in 2023 (Henley & Partners)

+18%
Year-on-year increase in international arrivals to Dubai in 2023

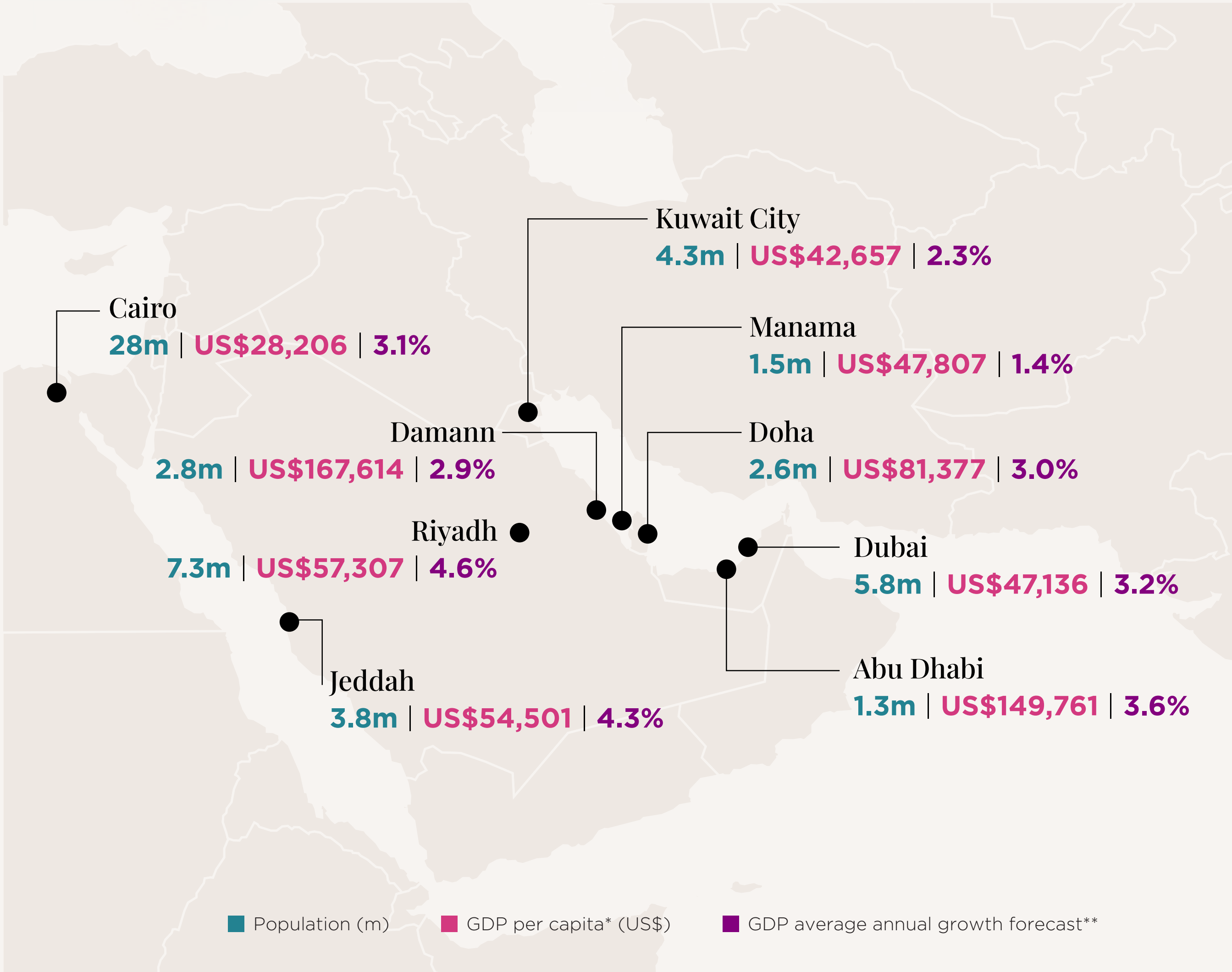
€12bn
Forecast luxury goods expenditure by Saudi residents (domestically and abroad) by 2030 (BCG)

GRAFF
Moda Mall, Bahrain

Saudi Arabia's appeal lies in its potential market size, with BCG suggesting that luxury good expenditure by its residents, both domestically and abroad is forecast to double from €6bn to €12bn by 2030. The country's aspirations to diversify its economy and grow tourism is further enhancing its appeal to expansive luxury brands.

But, while Dubai presents a more immediate opportunity for expansion, Saudi Arabia's full expansion potential will probably not be realised until post 2030 as it is largely dependent on large scale developments being delivered. Riyadh alone has three malls earmarked for development and until this space is delivered there is not the existing real estate, at scale, to meet potential demand.

KEY CITY MARKETS: MARKET SIZE, AFFLUENCE AND GROWTH FORECAST INDICATORS



Source: Savills Research; Oxford Economics (Note: All data points as of 2023.
*GDP per capita PPP. **GDP average annual growth forecast (real) 2023-28).

Richard Paul

HEAD OF PROFESSIONAL SERVICES & CONSULTANCY, MIDDLE EAST

It's the strength of the local fundamentals that's driving the Middle East's evolution into a key luxury hub.

The Middle East is surging as a hotspot for global luxury brands, and the reasons are as rich and diverse as the region itself. The region offers a unique confluence of economic prosperity, evolving consumer demands, and strategic government support, making it an irresistible magnet for global luxury brands seeking growth and expansion. Below is a summary of the key drivers:

01

SOARING WEALTH

Booming economies and a young, affluent population are fueling a surge in disposable income. The number of high-net-worth individuals in the Middle East is expected to grow by 40% by 2025, creating a vast pool of potential luxury consumers.

02

UNTAPPED POTENTIAL

Unlike saturated markets in the West, the Middle East presents a fresh frontier for luxury brands. This translates to lower competition and higher potential market share.

03

EVOLVING PREFERENCES

Middle Eastern consumers are increasingly fashion-conscious and eager to embrace diverse luxury brands and experiences. They seek quality, exclusivity, and personalized service, creating a fertile ground for innovative offerings.

04

TOURISM POWERHOUSE

The region boasts flourishing tourism, attracting high-spending visitors from across the globe. This influx fuels luxury retail, particularly in iconic destinations like Dubai and Abu Dhabi.

05

DIGITAL SAVVY

Middle Eastern consumers are digitally connected and adept at online shopping. Luxury brands are investing in e-commerce platforms and tailored digital experiences to cater to this tech-savvy clientele.

06

STRATEGIC INVESTMENTS

Governments are actively investing in infrastructure, retail development, and luxury experiences, creating an attractive environment for brands to set up shop.

07

DIVERSIFICATION FOCUS

Diversifying away from oil dependence, GCC countries are investing in luxury retail to boost economic growth and create jobs.

08

CULTURAL NUANCES

Recognizing the importance of cultural sensitivity, luxury brands are adapting their communication, marketing, and product offerings to resonate with local preferences.

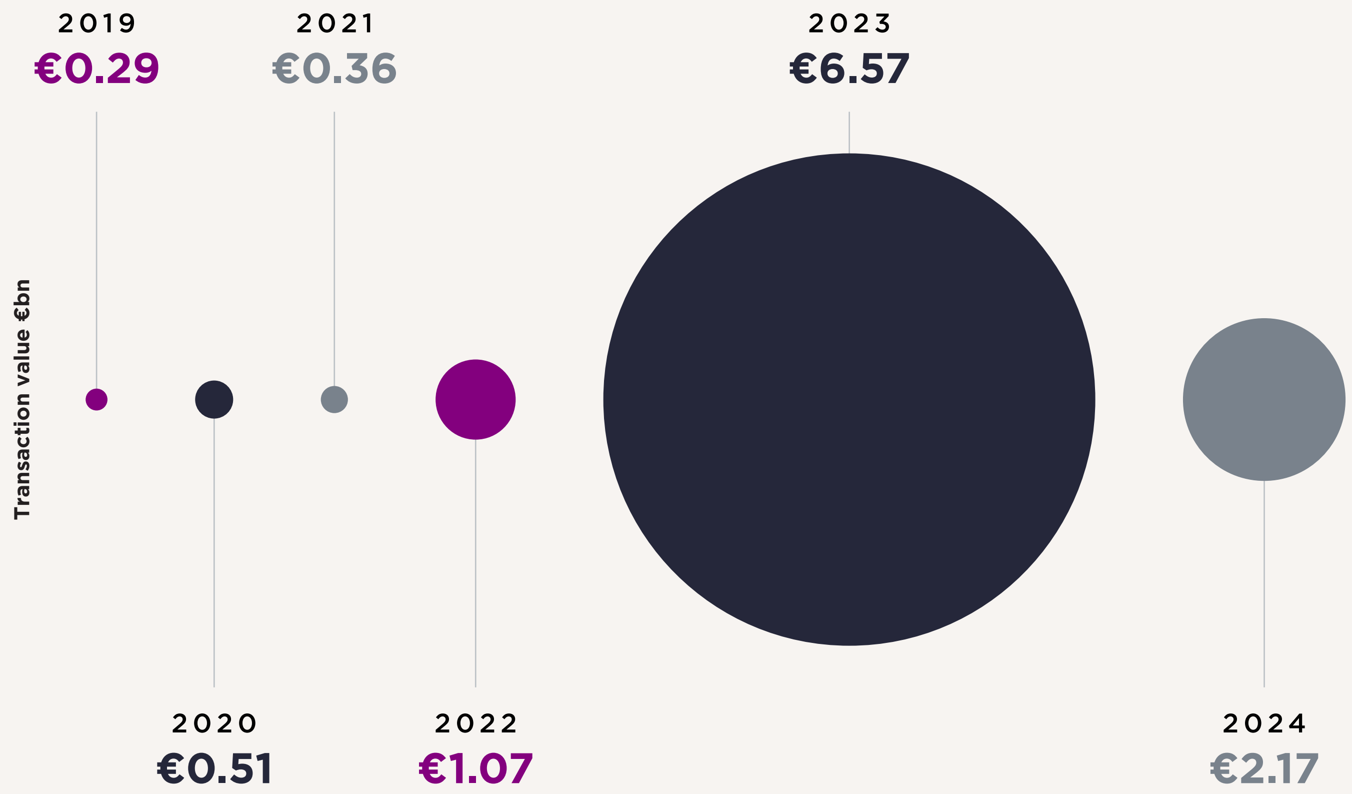
Has real estate become the new battleground?

Property acquisitions may have hit a new high, but leasing remains a key battle ground with competition across a growing number of locations intensifying.

Lead luxury analyst Luca Solca from Bernstein highlighted in a recent note that 'physical retail had become a core battleground in the luxury industry' in light of the increase in freehold acquisitions by a number of luxury groups and brands. For example, 2023 saw real estate acquisitions by a select number of luxury groups and brands reach in excess of €6 billion, six times that seen the previous year, with 2024 also set to see elevated levels of investment.

RH
Boulevard de Waterloo, Brussels

FIGURE 4: LUXURY BRAND SPENDING ON REAL ESTATE

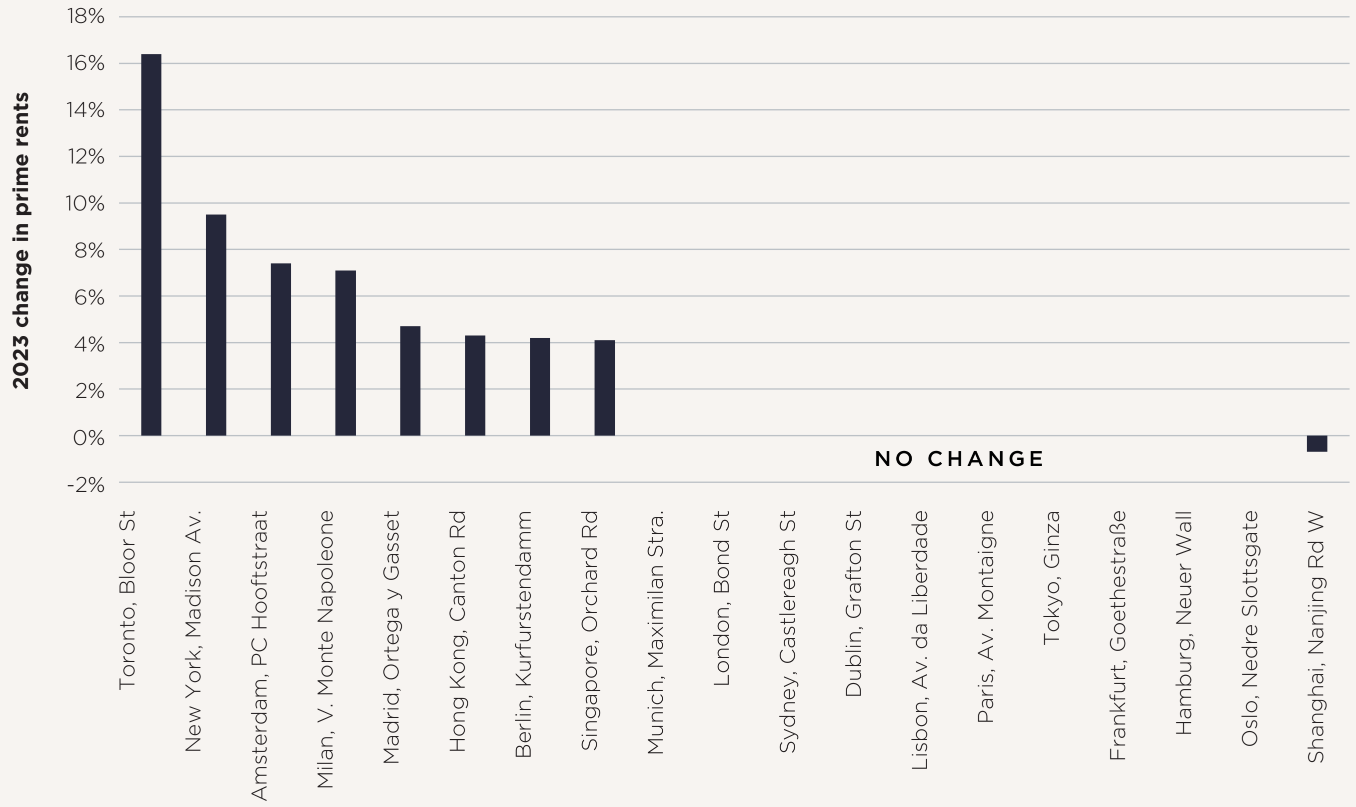


Source: Savills Data; Bernstein Analysis (select global markets and brands)

But we would argue that the battleground that is physical real estate is nothing new. Property acquisitions may be catching the headlines but leasing in prime luxury destinations globally has always been competitive and has become even more so over the course of 2023.

This has been apparent in rental performance. Across the 19 core luxury locations we track globally, eight reported an increase in headline prime rents in 2023, led by Toronto's Bloor Street where prime rents increased 16%. This was up on the five locations that reported rental growth the previous year. We did, however, see a small compression in prime headline rents on Shanghai's Nanjing Road West reflecting subdued occupier confidence in the face of slowing luxury spend domestically.

FIGURE 5: CHANGE IN PRIME HEADLINE RENTS ACROSS CORE LUXURY DESTINATIONS GLOBALLY



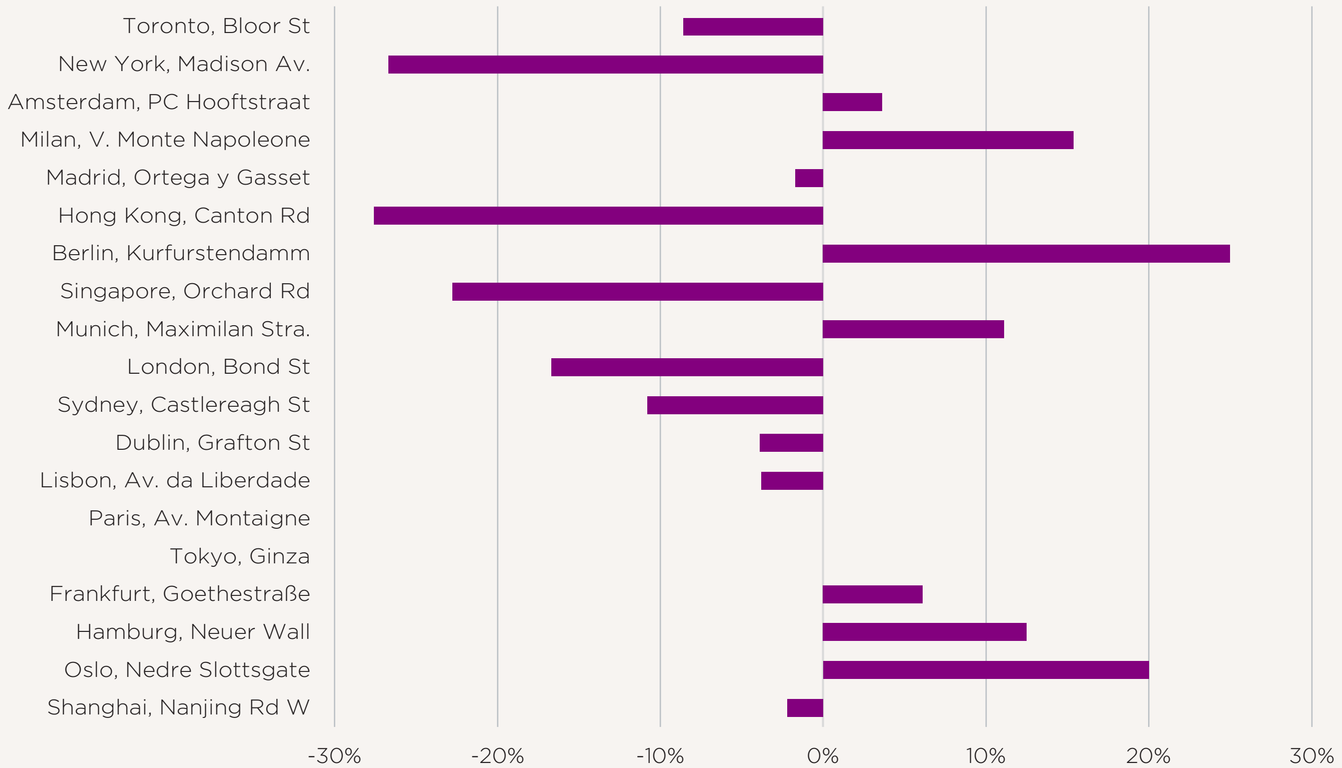
Source: Savills Research

MANGO
711, Fifth Avenue, New York

The upward pressure on rents has been driven by reduced availability and improving occupier demand, which has also been evident in those locations where prime headline rents have been largely static.

Despite this growth, a number of core luxury destinations still have rents below pre-pandemic levels, particularly those in large, higher value markets such as New York, Hong Kong, London and Paris. This differential continues to support leasing appetite, subject to the quality of the space and market dynamics. However, this rental value spread is diminishing as we expect to see further upward pressure on rents across a range of locations in 2024, albeit at a slower rate than seen previously.

FIGURE 6: DIFFERENCE IN PRIME HEADLINE RENTS Q423 VS Q419



Source: Savills Research

The most ‘expensive’ *luxury* locations in the world

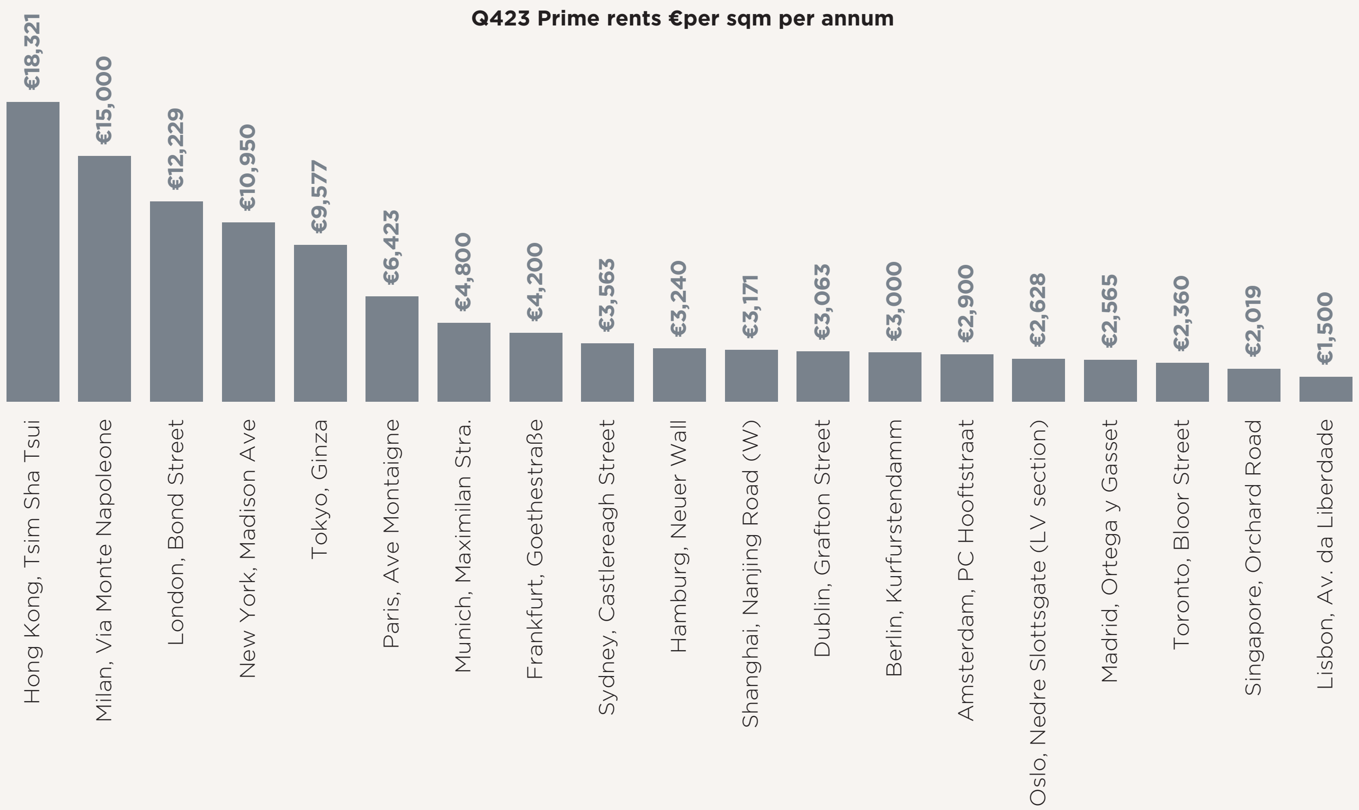
The 2023 uplift in rents across a number of core luxury destinations has had little impact on the ranking of these locations.

The hybrid luxury-mass market location that is New York’s Fifth Avenue has the highest rent globally, in the region of €22,000 per sqm per annum. However, focusing just on core luxury destinations (those where the profile of brands is predominately luxury), it is Hong Kong’s Tsim Sha Tsui that tops the ranking with prime headline rents in the region of €18,300 per sqm per annum. Despite the various headwinds facing Hong Kong’s retail market, some of which materialised pre-pandemic, Tsim Sha Tsui has managed to maintain its top position. It is also a location that can deliver in terms of sales due to the return of mainland Chinese tourists to the city, although numbers are still not back at previous peak levels.

Milan’s Via Monte Napoleone retained its position as the most expensive luxury location in Europe with prime headline rents at €15,000 per sqm per annum ahead of the €12,200 for London’s Bond Street. It even outpaces Paris’ hybrid luxury-mass location of Champs Elysées where prime headline rents are close to €7,400 per sqm per annum.

Looking forward we expect there to be little change in this ranking. Renewed occupier appetite, coupled with reduced availability, will generate upward pressure on rents on London’s Bond Street and New York’s Madison Avenue over the course of 2024. Yet, considering the current headwinds facing global luxury spend, the rate of growth is likely to be relatively subdued and not to a level that will topple Hong Kong and Milan from their current positions.

FIGURE 7: RANKING OF CORE LUXURY DESTINATIONS GLOBALLY IN TERMS OF PRIME HEADLINE RENT (Q4 2023)



Source: Savills Research (Note: prime headline rents based on 100-150sqm unit in prime pitch)

Leighton Hunziker

RETAIL SERVICES, AUSTRALIA

An influx of new wealthy residents to the country is adding to the extension of luxury pitches across a number of the country's key markets.

Post Covid we have seen an influx of HNWI, largely from Asia, into Australia. In fact, in number terms, the country saw the largest global increase in HNWI according to Henley & Partners.

This is fuelling growth in premium luxury products from residential, automobiles, and consequently also luxury goods.

The Sydney luxury zone has traditionally been concentrated around Castlereagh Street. However, what was a confined zone five years ago has since expanded into King Street and Market Street, supported by increased occupier demand in response to confined domestic spend post pandemic and more recently the net gain in HNWI. This trend has intensified with luxury occupier demand now bleeding into nearby George Street in response to a lack of appropriate and suitably sized real estate in the traditional luxury pitches. The opening, late 2022, of the Cartier flagship opposite the Louis Vuitton's Maison further established this area of George Street as a key luxury pitch. Looking forward, we expect the premiumisation of George Street will continue leading to Martin Place and Market Street.

Beyond luxury fashion, we are seeing the emergence of a second luxury watch precinct at the intersection of Pitt Street and Market Street. Rolex, Longines, Tag Heuer, Grand Seiko and Breitling are doing brisk business and establishing new or refurbishing existing stores.

For other luxury brands, particularly those with a more lifestyle offering, we have seen a focus beyond the CBD towards affluent residential enclaves. This is evidenced in the recent announcement of RH inking a deal to establish a gallery in the uber rich destination of Double Bay.

Beyond Sydney, Melbourne remains an attractive luxury market. We continue to see strong demand for Collins Street, with availability heavily constrained. This lack of supply on Collins is fuelling demand re-alignment to the Chadstone Shopping Centre, which hosts a huge assortment of Luxury retail and is ever growing this category.

And while international luxury brands are shaping the Australian luxury real estate landscape, we are also seeing the premiumisation of established Australian rands overseas. A good example of this is RM Williams, in new private ownership, actively seeking prime European real estate to further grow its premium assortment of footwear and clothing with an Aussie flair.

ZEGNA
Av. Aliados, Porto

DIPTYQUE
New Bond Street, London

TESLA
UFUN, Chengdu

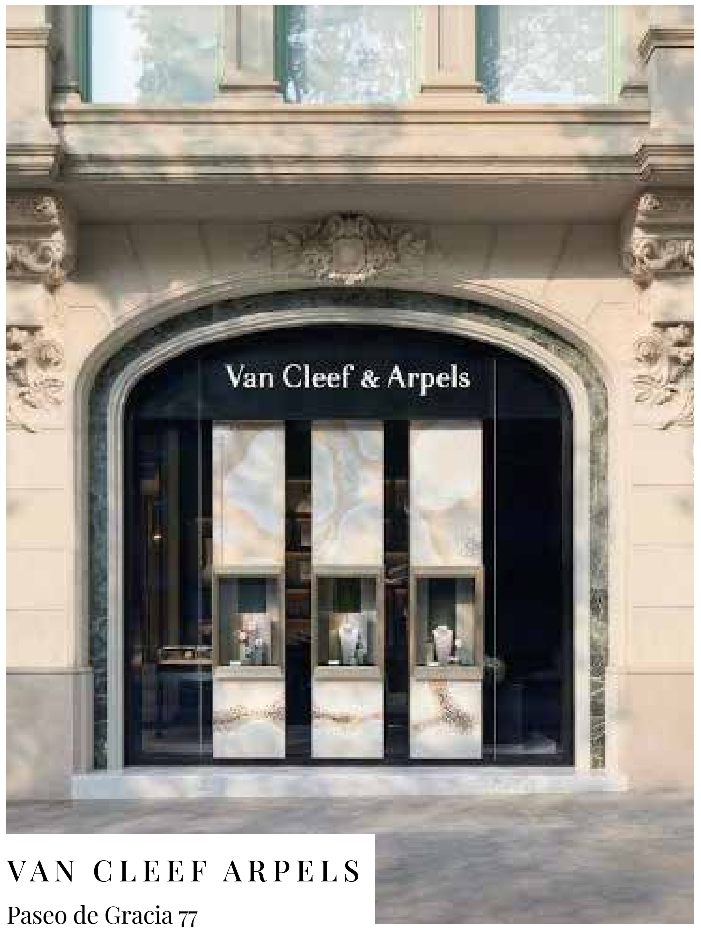
RH
Aynho Park, Oxford

MARLI NEW YORK
Moda Mall, Bahrain

ICICLE
114 Grafton Street, Dublin

FERRAGAMO

Bloor Street, Toronto



VAN CLEEF ARPELS

Paseo de Gracia 77

HERMES

Neuer Wall 43, Hamburg

BURBERRY

21-23 New Bond Street

OMEGA

Stiftstraße 4, Stuttgart

GUCCI

144-146 New Bond Street

Looking to the future

What to expect in 2024 and into early 2025 in terms of global luxury real estate.

FURTHER DECELERATION IN NEW OPENINGS

Weakening consumer confidence in China is likely to dampen confidence in store expansion this year and into early 2025. Beyond China, the real headwinds to store expansion will not be weakened appetite but rather reduced availability in prime luxury retail destinations. On the flip side this is helping to open up new real estate opportunities in key luxury streets where the traditional prime pitch is more constrained.

AVAILABILITY CHALLENGES TO PLACE UPWARD PRESSURE ON RENTS

We expect further upward pressure on rents to continue, although largely confined to those locations where spend remains robust and availability pressures persist. However, the rate of this growth will be slower than that seen in 2023 with the larger US and European markets, namely those where prime rents are currently below pre-pandemic levels, likely to be lead performers.

BRAND FOCUS ON STRONG/GROWTH DOMESTIC MARKETS TO CONTINUE

This focus will be largely confined to North American markets and those in Asia Pacific, beyond China, where stronger economic fundamentals persist. Weaker consumer confidence domestically in China may temper in-country activity over the short-term. However, the strength of its base fundamentals means that it will remain a key focus market going forward.

LARGE, GROWTH TOURIST HOTSPOTS TO MOVE UP THE AGENDA

International travel continues its return to pre-pandemic norms, with a number of markets to see a full recovery in international arrivals in 2024. As a result, key destination cities in Europe and Asia Pacific will remain major focus hotspots for new stores and upsizing opportunities. Dubai and its growing position as an international travel hub between South East Asia and Europe, and beyond, coupled with an expanding population of HNWI's, means a growing interest from luxury brands.

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:

Anthony Selwyn
Co-head of Prime Global Retail team
aselwyn@savills.com

Sam Foyle
Co-Head of Prime Global Retail, Global
SFoyle@savills.com

Laura Clowes
Director, Global Cross Border Retail
laura.clowes@savills.com

Joey Chio
Head of Transaction and Advisory, China
joey.chio@savills.com.cn

Christian Nehme
Co-Head of Retail Department, Paris
cnehme@savills.fr

Alexander Glavas
Director, Cross Border - Europe
alexander.glavas@savills.com

Katie Savill
Global Retail Coordinator, London
katie.savill@savills.com

Jorge Alonso-Allende Osborne
Cross Border Senior Consultant, Madrid
jorge.alonso-allende@savills.es

Marie Hickey
Director, Retail Research
mlhickey@savills.com

Kelly Cheng
Associate Director, Cross Border - APAC
kelly.cheng@savills.com.cn

Daniel Kroppmanns
Head of Retail Agency, Germany
DKroppmanns@savills.de

Germana Ascione
High Street Leasing Manager, Milan
germana.ascione@savills.it

Andrés Martín Rico
Director, Madrid
andres.martin@savills.es

Cameron Scott
Director, Central London Retail
cameron.scott@savills.com

Richard Scott
Director, Central London Retail
richard.g.scott@savills.com

John Lyons
Director, Central London Retail
john.lyons@savills.com

Francesca Cattagni
Head of High Street Leasing, Milan
francesca.cattagni@savills.it

Nick Bradstreet
Head of Asia Pacific Retail
nbradstreet@savills.com.hk

Jordan Karp
Head of Canadian Retail Services
JKarp@savills.ca

Larry Brennan
Head of European Retail
larry.brennan@savills.ie

Emmeline Blellock
Research Analyst London
emmeline.blellock@savills.com

Richard Paul
Head of Professional Services & Consultancy Middle East
richard.paul@savills.me

Leighton Hunziker
Australia
Director
lhunziker@savills.com.au

Jose Galvao
Portugal
Director
jose.galvao@savills.pt

Fabian Dungs
Switzerland
Director
fabian.derungs@hbre.ch

COUNTRY SPECIFIC

Hille Jorna
Netherlands
Director
hille@kittrealestate.com

Estien Bicker
Netherlands
Director
estien@kittrealestate.com

savills