Global Luxury Retail

IDENTIFYING AND REALISING OPPORTUNITIES

2023 OUTLOOK

savills

Welcome to the **SAVILLS GLOBAL LUXURY RETAIL** 2023 outlook

It is incredible to think that this is our fifth edition of our global luxury retail report and what a five years it has been. What the pandemic has demonstrated is the resilience of luxury spend but in particular the strength of physical luxury retailing and its increasing importance in a digital age. In the immediate aftermath of the pandemic the focus from a store perspective was to get closer to luxury consumers; this trend continues but with the resumption of international travel key destination cities have also moved back up the agenda.

Opportunities generated by the pandemic, such as increased availability and reduced rents in some markets, have helped to facilitate increased store activity, namely in London and New York. However, the resilience of luxury spend in more domestic focused markets and those with very tight levels of supply have actually elevated rents above pre-covid levels and further constrained availability.

With those post pandemic opportunities now almost absent across the majority of primary luxury markets and supply coming under further downward pressure the question is, where are the best store opportunities in 2023 and beyond?

We look to try and identify these future opportunities. Our on the ground experts and market knowledge highlights that opportunities still exist in those primary luxury global markets beyond the core luxury pitch if brands are willing to be ‘pioneers’. And in some cases, these emerging pitches will be supported by wider redevelopment initiatives and the entrance of new global luxury hotels, bringing new wealthy consumers into their orbit.

What is clear looking at the geography of store openings over the last 12-18 months, brands have already become increasingly open to a wider variety of markets from global destination cities, through to domestic focused and leisure resort markets. A trend we expect will continue through to 2024. But, with availability becoming increasingly constrained across markets, 2023 may prove to be the apt time to secure new opportunities and in some cases still benefit from attractive post-pandemic leasing terms.

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. 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

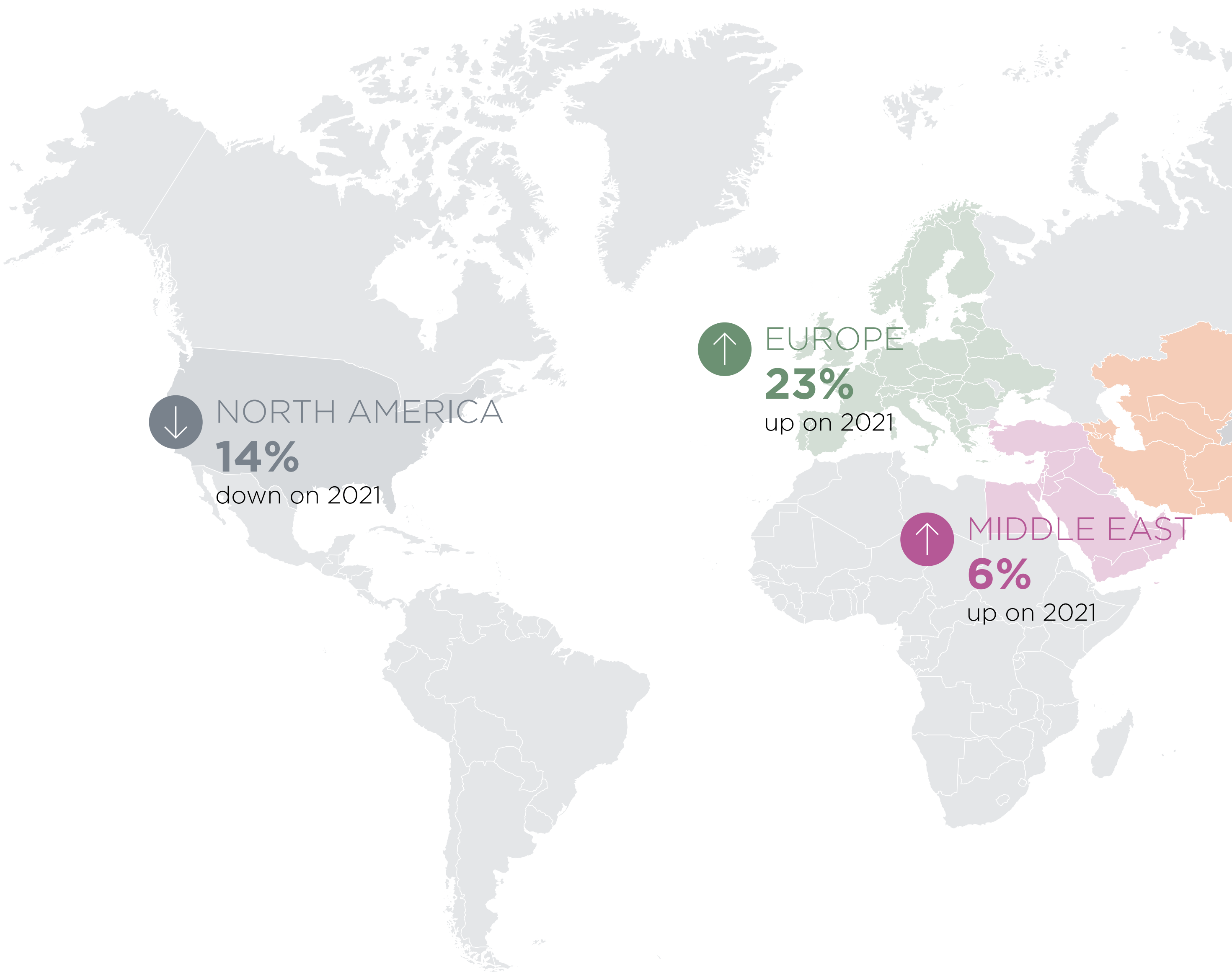
Director
Retail Research

European opportunities MOVING UP THE AGENDA

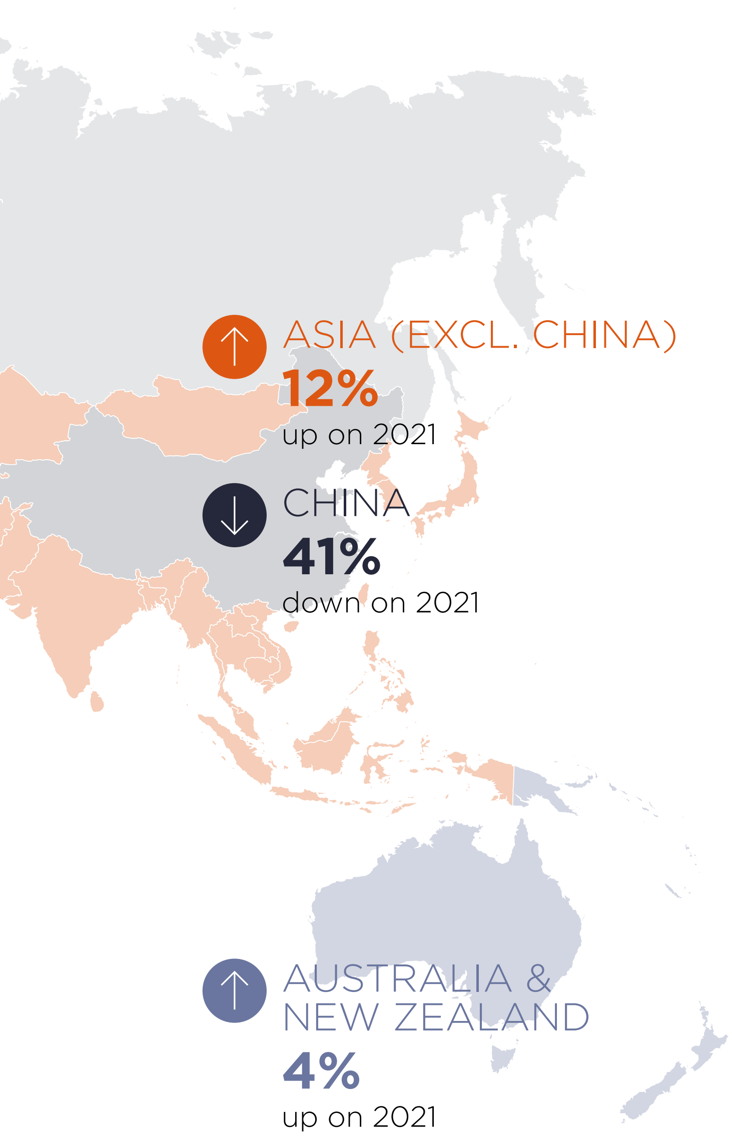
China still dominated new store openings in 2022, as it did the year before, but we saw renewed activity in Europe with new openings in Middle East also picking up pace.

2022 REGIONAL SHARE OF LUXURY NEW STORE OPENINGS

(arrow indicates change in global share compared to 2021)



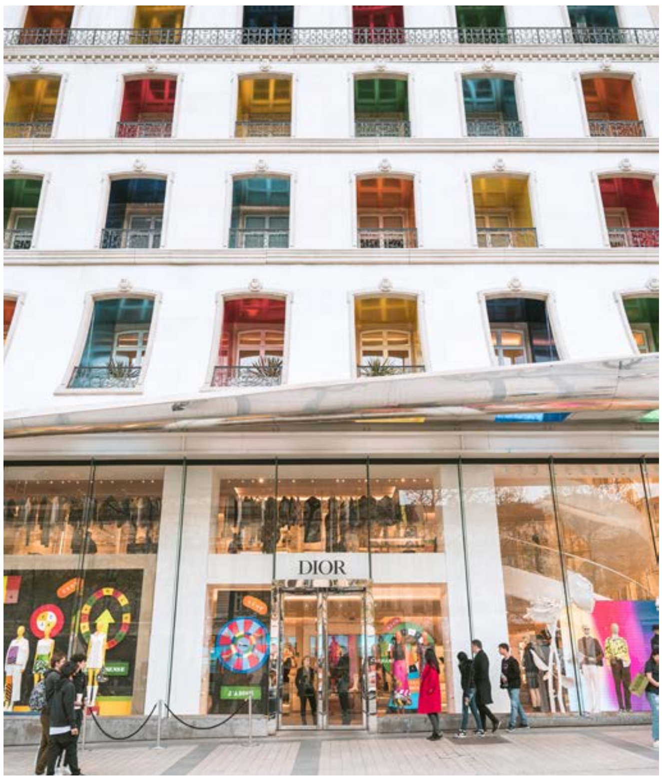
Globally, we saw an 11% increase in new store openings in 2022 on the previous year. However, there was not a huge change in the regional geography of this store expansion. China continued to dominate accounting for 41% of all new store openings, driven by brands continued focus on that market, particularly over the first half of the year, as Chinese luxury spend remained largely confined to its domestic market. But, in quantum terms we did see a decline in new openings. This was not wholly unexpected considering the acceleration in openings the year before and the weakening in occupier confidence in the face of the rolling lockdowns seen in some parts of China throughout 2022.



The primary beneficiaries of this marginal softening in China were the wider Asia region and Europe. Europe saw a 77% increase in new store openings year-on-year with its global share of new openings climbing to 23%, ranking it second to China and ahead of North America. A relatively fast recovery in luxury spend in the region, helped in part by the return of international visitors no doubt moved Europe back up the agenda for expanding luxury brands. Likewise, a rebasing in rents on a number of key luxury streets in the region combined with improved availability in some cases also bolstered leasing activity. For example, London's Bond Street saw indicative prime headline rents soften by 27% between December 2019 and December 2021 and while rental growth has returned, as of Q1 2023 rents are still 17% below their pre-covid peak (see page 13).

In the wider Asia region its global share of new store openings increased to 12%, driven by some of the same factors that helped to drive activity in Europe. A focus on relatively underserved markets with a growing HNW (high-net worth) population, such as Vietnam, also boosted luxury brand activity in the region.

Another growth region in 2022 was the Middle East, continuing the trend we saw in 2021 as luxury brands refocused on relatively underserved affluent markets in the face of reduced international travel. As a result, the region saw its market share of global new openings double to 6%. Dubai remained a primary focus for these new openings in the region, but Saudi Arabia also become a key market for new luxury store openings.



IDENTIFYING FUTURE OPPORTUNITIES IN LONDON

Anthony Selwyn

CO-HEAD OF PRIME GLOBAL RETAIL TEAM

London was one of the most active luxury markets in Europe last year taking top spot in the region when it came to new store openings, with much of this activity focused on the city's premier luxury destination Bond Street. Much of this renewed activity was facilitated by an increase in opportunities following the completion of GPE's major redevelopment project on the northern end of the street.

As a result, the street is finally providing a suitable home for luxury brands across the whole spectrum from Piccadilly to the south of the street through to Oxford Street to the north, although there are very distinctive contrasting rental values taking shape across the various segments of the street.

For the first time in its evolution the most central part of Bond Street has become the most desired pitch certainly amongst the elite luxury fashion brands evidenced by Gucci recently securing a relocation to this central pitch. They will be followed by Moncler and Off-White with numerous others looking for new premises in this segment. With demand and short supply comes rent increases and we anticipate over the next 12-24 months this central part of Bond Street will command the highest rents on the street.

This has already started to provide opportunities to the north of this central area (north of Grosvenor Street). For example, Michael Kors has already capitalised on this by taking advantage of favourable terms on a new unit within this pitch before demand, and rent, increases. Further north on the street Canali have been joined by Dsquared2, Bang & Olufsen, Grand Seiko, Diptyque and Opera Gallery who will open new stores within GPE's recently completed redevelopment.

So where are the future opportunities on Bond Street? With the central area of the street improving in terms of brand profile and in turn value, the quality of the nearby pitches to the north (north of Grosvenor Street through to Oxford Street) will also improve and we expect this area of the street will see the most significant change in brand profile over the coming years. One of the major attractions for this northern segment is its substantial discount to prime rents on other parts of the street, therefore brands should be open to being pioneers in this segment of Bond Street to take full advantage. With the redevelopment of the Fenwick's department store and Victoria's Secret space in this northern quarter, a variety of new opportunities, something this location has craved, will be delivered in the coming years.

In the short term, given demand focused elsewhere on the street, the Old Bond Street segment may also provide attractive opportunities for brands seeking better value. There is little doubt on the quality of this location, even once the market settles again.

IDENTIFYING FUTURE OPPORTUNITIES IN CANADA

Jordan Karp

HEAD OF CANADIAN RETAIL SERVICES

Strong demand and a turf war environment from LVMH, Kering and Richemont is fuelling an unprecedented expansion of luxury brands in Canada and moving the pendulum back towards the landlord side. The focus is primarily on high streets and in the dominant shopping malls in Toronto and Vancouver and to a lesser degree in shopping malls in Calgary, Edmonton and Montreal. Rents are returning or surpassing pre-covid levels. To be competitive on the global stage, Landlords continue to offer inducements, albeit in most cases at reduced levels from those seen in early 2020.

Toronto's famed Mink Mile and adjacent Yorkville, is arguably one of the top destinations for luxury anywhere in the globe, anchored by the recently renovated iconic Holt Renfrew Flagship. Recent openings include Dior, Balcenciaga, Isaia and Miami based multi brand purveyor of luxury The Webster.

Ferragamo, Saint Laurent, Rolex, Alexander Wang, Anne Fontaine and Van Cleef and Arpels will open Bloor Street flagships later this year. Strong demand and limited availability on Bloor Street is generating challenges for those brands looking for opportunities on the street. Albeit this will be mitigated somewhat by Holt Renfrew's decision to relocate their freestanding men's store on the street back into their department store, planned for 2024, effectively generating new opportunities.

The recent demise of Nordstrom in Canada could create further demand, as brands that relied on concessions and shop-in-shops within Nordstrom will be looking for new points of sales. Some of this demand could remain in existing Nordstrom locations, depending on how existing landlord's plan to repurpose/redevelop the soon to be closed stores.

So, with demand and competition for existing key luxury locations showing no signs of abating where are the future opportunities for expansive luxury brands?

Oxford Properties has ambitious plans to remerchandise approximately 100,000 sq ft of existing CRU to luxury at Canada's top performing mall Yorkdale Shopping Centre in Toronto. Yorkdale with annual sales of over CAD$2 billion currently has the largest concentration of luxury brands of any enclosed mall in Canada, and amongst the largest in North America.

Beyond Toronto there are mega mixed use developments that are also providing new expansion opportunities. Oakridge Park in Vancouver and Royalmount in Montreal, the latter being backed by L'Catterton, have grand openings scheduled in the next 24 months with both delivering approximately 100,000 sq ft for true luxury. The depth of demand from luxury brands for both projects is leading to floorplan revisions in order to accommodate more luxury retail into their schemes. As a result both projects have the potential to deliver a luxury line up that can rival any shopping centre or street front node in North America.

Where are opportunities **MANIFESTING** & **WHO'S CAPITALISING** on these?

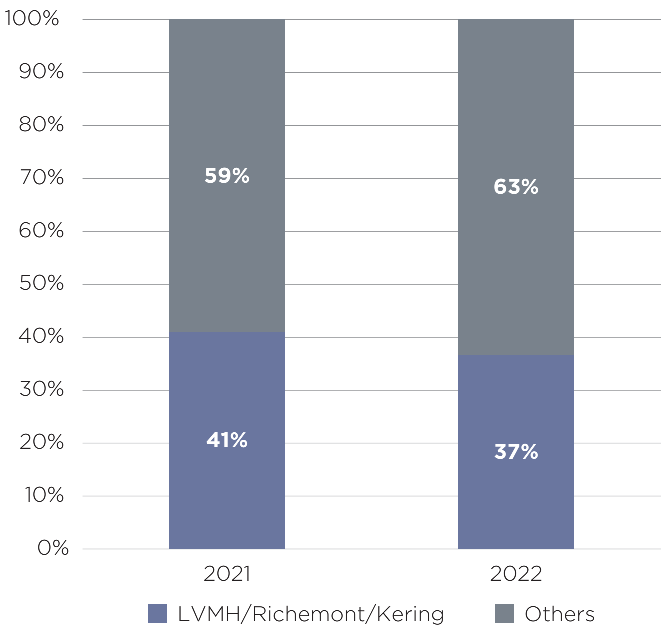
Smaller luxury groups and independents stepped up activity in 2022

While the three largest luxury groups, LVMH, Richemont and Kering continued to be acquisitive with several reporting an increase in new store openings globally, their share of total openings softened on 2021 levels as smaller groups and independents became increasingly acquisitive.

The fact that some of the larger luxury brands have refocused on upsizing existing sites, including relocating to larger units, particularly in more established markets, will also have a bearing on this analysis as this type of activity is not picked up by our database.

In the immediate aftermath of the pandemic, it was the three largest luxury groups that continued to be acquisitive, supported by a strong balance sheet, explaining their ability to increase their share of new store openings in 2021. Confidence and appetite amongst smaller luxury groups and independents lagged the larger groups but made a meaningful return in the latter part of 2021. This is reflected in their greater share of new openings in 2022.

NEW STORE OPENINGS BY GROUP



Source: Savills Research

RELOCATIONS & UPSIZING: ELEVATING THE PHYSICAL LUXURY EXPERIENCE

The upsizing of stores by the more prominent luxury brands, particularly in their home markets, is not a new trend. It has been driven by the aspiration to elevate the luxury store experience with the ultimate aim of elevating the brand above its peers. From a practical perspective these larger spaces allow brands to house their full product range.

One of the best examples of this elevation through the store experience is the redevelopment and upsizing of the Dior flagship on Avenue Montaigne, Paris, which reopened in 2022. The 10,000 sqm space has delivered an experiential destination, beyond just retail, which includes a gallery, restaurant, patisserie, guest suite for VIP customers and their full product range from ready-to-wear through to beauty. It is not just a place to purchase Dior products but also a place to experience the Dior brand.

And while upsizing is not a new trend, the pandemic did provide some with an opportune time to realise upsizing ambitions. Increased availability and rebased rents in some key luxury locations in response to the pandemic facilitated an increase in relocations, many of which were to larger spaces in better locations. Madison Avenue in New York is one such location and has seen a number of brands upsize and/or relocate from elsewhere on Madison or from other locations in the city. The scale of this activity meant that over the second half of 2022 the area of Madison between East 57 and East 86 Streets saw 29 new openings and relocations. According to the Madison Avenue Business Improvement District the majority of these were relocations. Looking to 2023 there are a further 28 units currently under development. The intensification and quality of the luxury offering on Madison will help to further elevate it as a Global luxury destination. We've seen a similar trend on London's Bond Street, albeit to a lesser extent. This is resulting in an intensification of luxury across its entirety and is driving rental growth beyond the core central pitch of the street.

IDENTIFYING FUTURE OPPORTUNITIES IN ASIA PACIFIC

Nick Bradstreet

HEAD OF ASIA PACIFIC RETAIL

China is still a very important market for luxury representing around 17% of global sales in 2022 according to Bain. But, because of Covid and the tight regulations in China, alongside increasing challenges around profile and marketing for smaller and emerging luxury brands, many have come to realise that they need to diversify their portfolios and South East Asia is the natural choice for this diversification.

Stand out markets in this region include Singapore, Thailand and Vietnam. All of these suffer from a lack of suitable supply which is a challenge, albeit new development projects in Bangkok should alleviate supply pressures in this market over the coming years. What they all share however, are growing economies and expanding HNW populations, including a widening profile of luxury hotels and members clubs. As a result, a number of luxury retailers are focusing their attention on them.

Vietnam, and to a lesser degree Thailand, are very much in focus. Singapore, despite being a more mature market with many luxury players already having positions, still presents as an interesting opportunity to new and upcoming names particularly as Singapore's retail sales have grown significantly over recent months. But with very tight levels of supply there exists significant upward pressure on prime rents.

Hong Kong has historically been a key luxury market in the region, albeit its position and appeal has slipped somewhat in recent years due to falling visitor arrivals from mainland China. This trend is expected to reverse in 2023 and we are forecasting that numbers will return to pre-covid levels in 2024 (55 million visitors are expected to come to Hong Kong in 2024), resulting in a strong jump in sales. Improving sales, and the fact that prime headline rents in key luxury locations are still 10% below pre-covid levels, means that for luxury brands not represented yet in Hong Kong, now may be a good time to take a position.

Fashion brands have become more acquisitive, with specialist watch brands looking to a wider variety of markets for store expansion opportunities

In terms of brand positioning, it was the ultra-luxury brands that continued to dominate store acquisitions accounting 68% of all new openings in 2022. Where we did see some change was in terms of product category.

Fashion & accessory brands stepped up their activity last year aided by renewed confidence considering a return to more normal lifestyles post the pandemic with a 21% increase in new store openings year-on-year. This saw its share of total new openings reach 64%, exceeding that seen the preceding year and in 2019. In contrast we saw a decline in new openings by Jewellery & Watch brands with their share of new openings falling to 24% from 29% in 2021. However, a deeper dive into this headline category highlights that this softening was driven by reduced activity by jewellery brands with the specialist watch brands continuing to expand their stand-alone boutiques at the same level seen the preceding year.

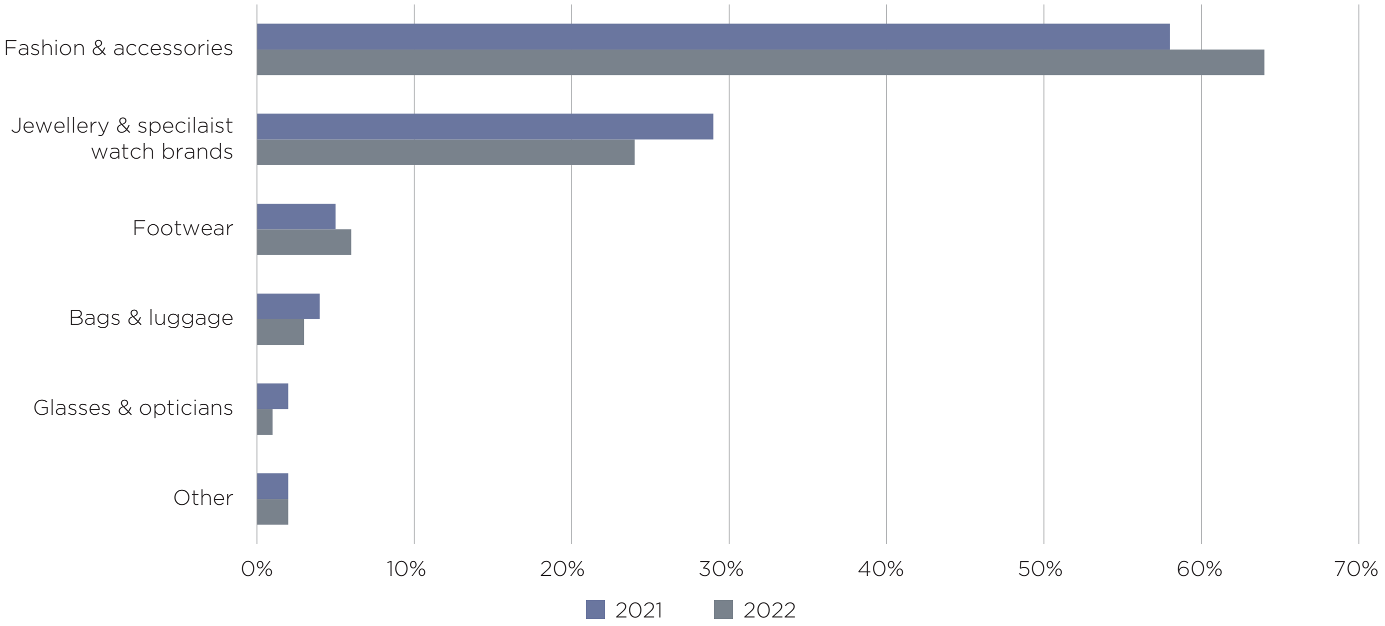
21%
Y-o-Y increase in new store openings by fashion & accessory brands

64%
share of total new store openings globally by fashion & accessory brands

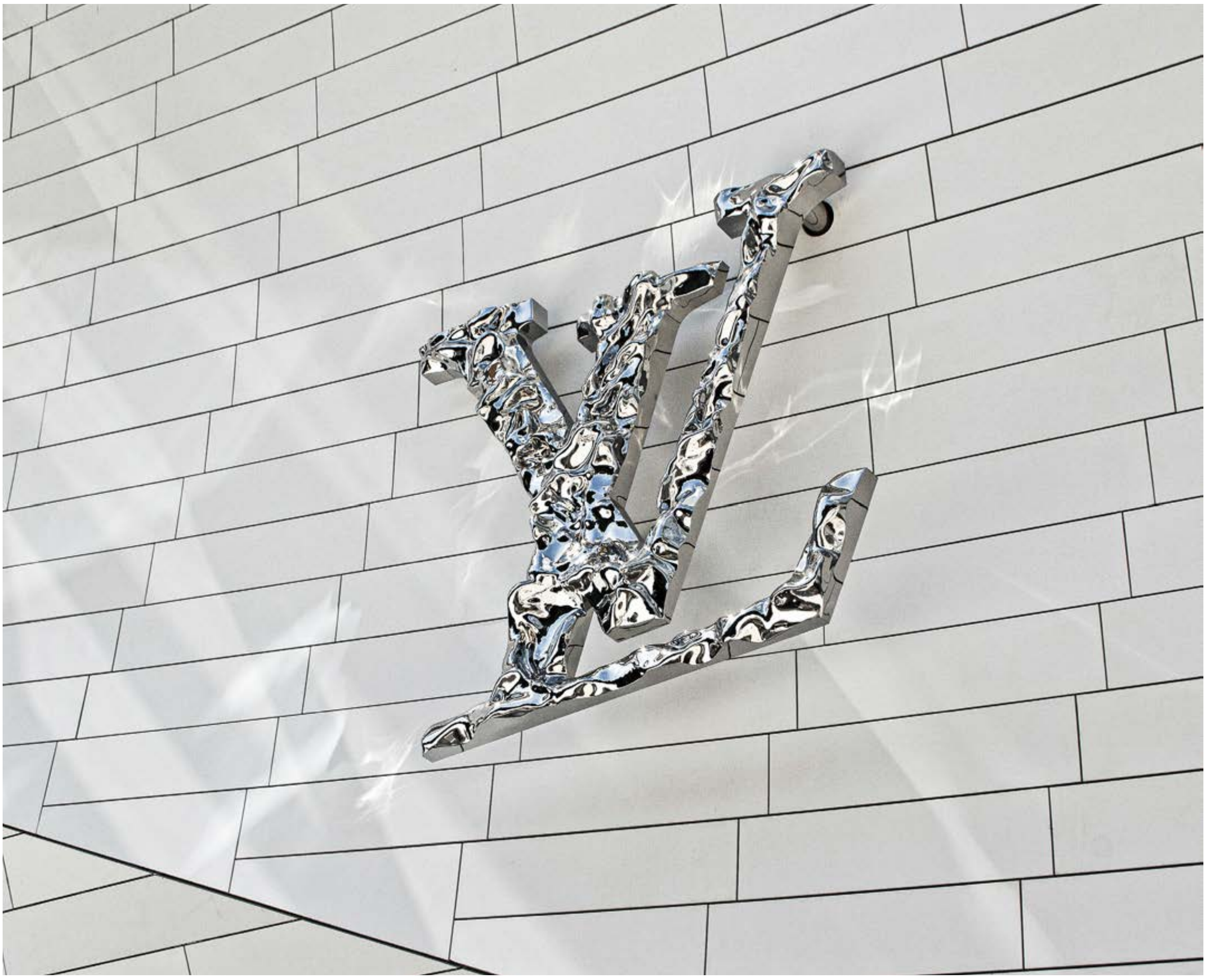
What was interesting was the entry and expansion into new markets by specialist watch brands, helped in part by the pandemic as the absence of travel spend highlighted attractive domestic focused markets. For example, we saw an increase in activity by specialist watch brands in a number of new first tier and second tier cities in China such as Chengdu, Chongqing and Fuzhou. Likewise in Europe we saw store openings across a wider variety of markets, 16 in total whereas in 2019 it was only across eight markets. Much of this 2022 activity was focused on smaller affluent and under served cities. Dublin in particular has seen a flurry of luxury watch brands, largely via a partnership with a local operator, establish stand alone boutiques in the city helped in part by the country's expanding luxury watch spend. For example, in 2022 Ireland ranked 25th globally in terms of the value of Swiss watch imports (CHF150.9 million), with annual growth of 25%. In 2019 the country didn't even feature in the top 30 markets globally.

Another product category that has been boosted by evolving luxury spending trends post pandemic has been homeware. While only accounting for a very small proportion of new openings globally (typically around 1%) we did see some increased activity by homeware brands in 2022 continuing the trend we saw the preceding year. We expect this to continue with a number of the large luxury brands actively looking to expand the store network for their home concepts, such as Fendi Casa. Growth brands such as US brand RH, which is blurring the lines between retail and hospitality, are also in global expansion mode having secured a number of sites outside of their home market.

NEW STORE OPENINGS BY CATEGORY



Source: Savills Research



The major Global cities continued to dominate new openings but it were the smaller markets that drove store expansion.

It wasn't just luxury watch brands that opened new stores in a wider variety of markets last year, it was a trend that we saw across the wider luxury space. But, while the previous year we saw the focus shift to domestic driven city markets, those that were less impacted by reduced international travel, in 2022 there was a refocus on Global Alpha cities.

Global Alpha cities as defined by the Globalisation & World Cities Research Network (GaWC) are cities that rank highly in terms of economic, political and cultural factors. These cities include London, New York, Shanghai, Paris, Milan and Tokyo amongst other major international cities. These Global Alpha cities saw a 25% increase in new store openings with their share of new store openings improving to 45%. Their expanding market share was helped by the fact that many of these cities are key international destination cities and the resumption of international travel, and with it increased luxury spend, moved them back up the agenda for expansive brands.

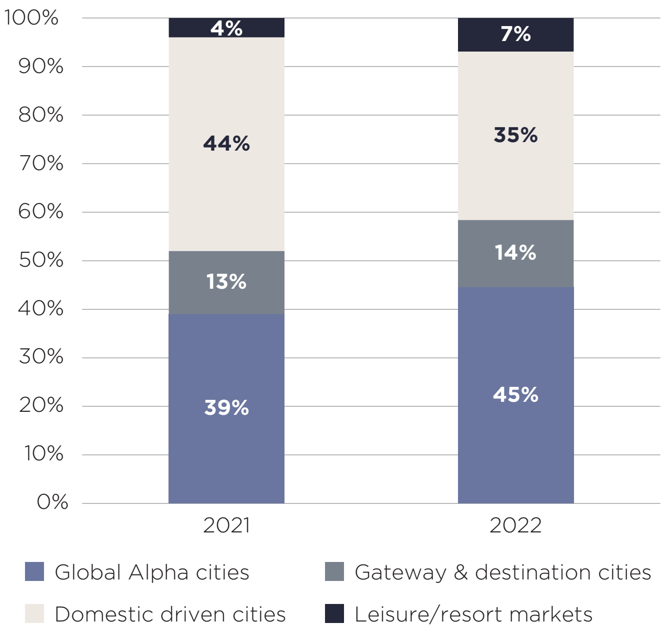
45%
the share of new store openings that were in Global Alpha cities

However, in percentage terms this growth for Global Alpha cities was largely driven by smaller Alpha markets. These include cities such as Milan, Madrid, Amsterdam, Los Angeles and Toronto cities benefitting from a strong domestic and visitor profile. And in real estate terms, increased availability within the core luxury pitch and new emerging luxury pitches within these cities helped to deliver new store opportunities. This was also reflected in the increase in new openings in gateway cities outside of the Global Alpha ranking, which were up 10% year-on-year.

One of the key features helping to raise the profile of these smaller Alpha and gateway markets was the elevation of the hospitality offering within these cities. Similar to the luxury retail brands, luxury hotel brands have also been in expansion mode, supported by the resilience of luxury spend, post-pandemic pent up demand and structural shifts in spending which is elevating 'experience' spend. This is evidenced in Madrid with the entrance of Four Seasons Hotel and Residences which is helping to attract more HNWI into the city and create a new luxury retail destination (see break out section on Madrid).

And while the strategy by luxury brands to get closer to target consumers in smaller domestic markets waned somewhat (new openings in these types of markets were down 13%) their global share of new openings was still significant coming second to Global Alpha cities (market share of 35%). Where the strategy of getting closer to luxury consumers did accelerate was the in store openings in leisure & resort markets. New openings in these markets were up 84%, albeit off a low base, accounting for 7% of all new openings globally in 2022, almost double the share seen in 2019 and in 2021.

NEW STORE OPENINGS BY MARKET TYPE



Source: Savills Research

IDENTIFYING FUTURE OPPORTUNITIES IN MADRID

Alicia Corrales Miñambres

RETAIL RESEARCH & CONSULTANCY, SPAIN

Galería Canalejas is a luxury shopping centre located in the heart of Madrid. It is close to famous landmarks such as Puerta del Sol, Gran Vía, and Plaza de Cibeles, and as part of the larger Canalejas Complex that also includes the Four Seasons Hotel Madrid, which is the first Four Seasons Hotel in Spain, and the Four Seasons Private Residences. These luxury components makes the entire complex a premier destination for high-end shopping, dining, and living in Madrid.

The shopping centre is housed within a group of restored historic buildings, which have been transformed into a modern and elegant shopping destination. The architectural charm of the buildings provides a unique atmosphere that sets it apart from other shopping centres. It opened its doors in 2021, and features a selection of high-end international and Spanish luxury brands, including Louis Vuitton, Gucci, Prada, and Loewe, amongst others. Within Galeria Canalejas, The Food Hall, is a gastronomic space designed to offer visitors an upscale culinary experience.

Galería Canalejas presents an interesting opportunity for expanding luxury brands for several reasons. Firstly it has a prime location in the heart of Madrid, close to major landmarks and attractions. Its central location ensures high foot traffic and visibility for luxury brands. Architecturally its very appealing being housed within a group of beautifully restored historic buildings. But, perhaps it biggest draw to luxury brands is the fact the wider complex includes Spain's first Four Seasons Hotel and Private Residences, which attracts wealthy travellers and residents. This synergy between the hotel, residential, and retail components creates additional opportunities for luxury brands to engage with their target audience.

IDENTIFYING & CAPITALISING on opportunities in 2023

Where are the opportunities in 2023 and beyond?

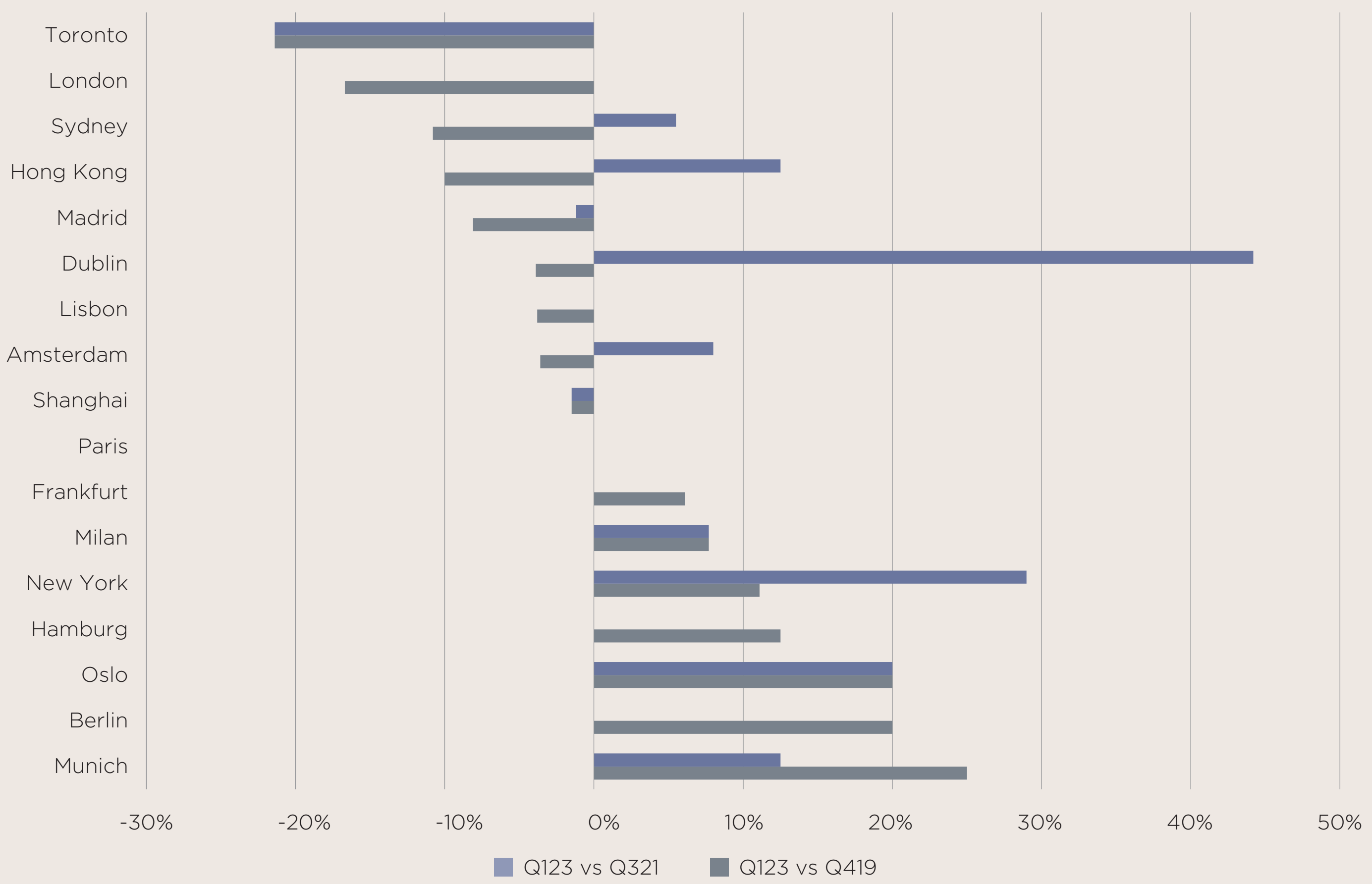
Bain are forecasting that the global personal luxury market will grow by 5-7% per annum through to 2030, representing a total expansion of more than 50% to €580 billion. With brands continuing to drive sales growth through their owned store network, realising this market potential will no doubt mean more stores globally alongside upsizing of existing stores in key markets.

As seen last year, this is likely to mean a continued focus on major Global and destination cities, with smaller, highly affluent gateway cities, particularly those in Europe, moving up the agenda.

For those brands looking to secure new space, 2023 may be the opportune time to do so as a number of key luxury destinations still have headline rents below pre-covid levels. Toronto, London and Hong Kong, all of which are key luxury destinations, have prime headline rents on their premier luxury streets at least 10% lower than those seen in Q4 2019, although they have seen some rental recovery from the lows seen during the pandemic. In the case of Toronto and London the differential to 2019 levels is 21% and 17% respectively.

In contrast Paris and Milan, have prime headline rents at or above pre-covid levels, helped in part by very tight levels of store availability. The upward pressure on prime headline rents on Milan's Via Montenapoleone means that it now has the highest luxury retail rents in Europe, a position previously held by London's Bond Street.

PRIME LUXURY RETAIL RENTS: % DIFFERENCE



Source: Savills Research

The major Global cities and destination markets will naturally have an appeal to expansive luxury brands, irrespective of headline rental levels. And while the key luxury destinations in these cities will and should be key areas of focus there are nuances within these locations, and even across cities, that could provide brands with interesting opportunities. Drawing on our agent intelligence, some of which is covered in more detail throughout this report, we summarise some of these opportunities on the following pages. **CONT P.20**

IDENTIFYING FUTURE OPPORTUNITIES IN MILAN

Francesca Cattagni

HEAD OF HIGH STREET LEASING, ITALY

High street real estate in Italy keeps on experiencing a positive moment. This is not just being driven by Milan, which confirms itself as a top destination for international operators and new entrants looking for an iconic destination, but also by interest and activity in Rome, Florence, Venice and in smaller Italian cities.

Strength of location continues to be the main factor driving decisions. But, increasingly so is the combination of concepts and experience; this is evidenced by the opening of Portrait Milano by Ferragamo in Corso Venezia, and the new Louis Vuitton space in the historic former Traversi garage in via Bagutta facing Piazza San Babila.

In the case of Milan, the city is exceeding all expectations. Demand for new space is growing, which has helped to drive prime headline rents above pre-covid levels. And this demand, particularly from new entrants, is not abating.

In the early part of this year, while not luxury brands, Kick Game and End Clothing opened their first flagship stores in the city, both delivering new and exciting concepts to the city. In the coming months we will see the arrival of more new brands, hotel and clubs to the city, concepts that will be totally new to Italy, helping to further enhance the attractiveness of Milan. This is why the luxury area of the city is booming; there is no availability in the consolidated luxury pitches and this is leading some brands to approach new emerging areas or consider neighbouring streets for flag expansion.

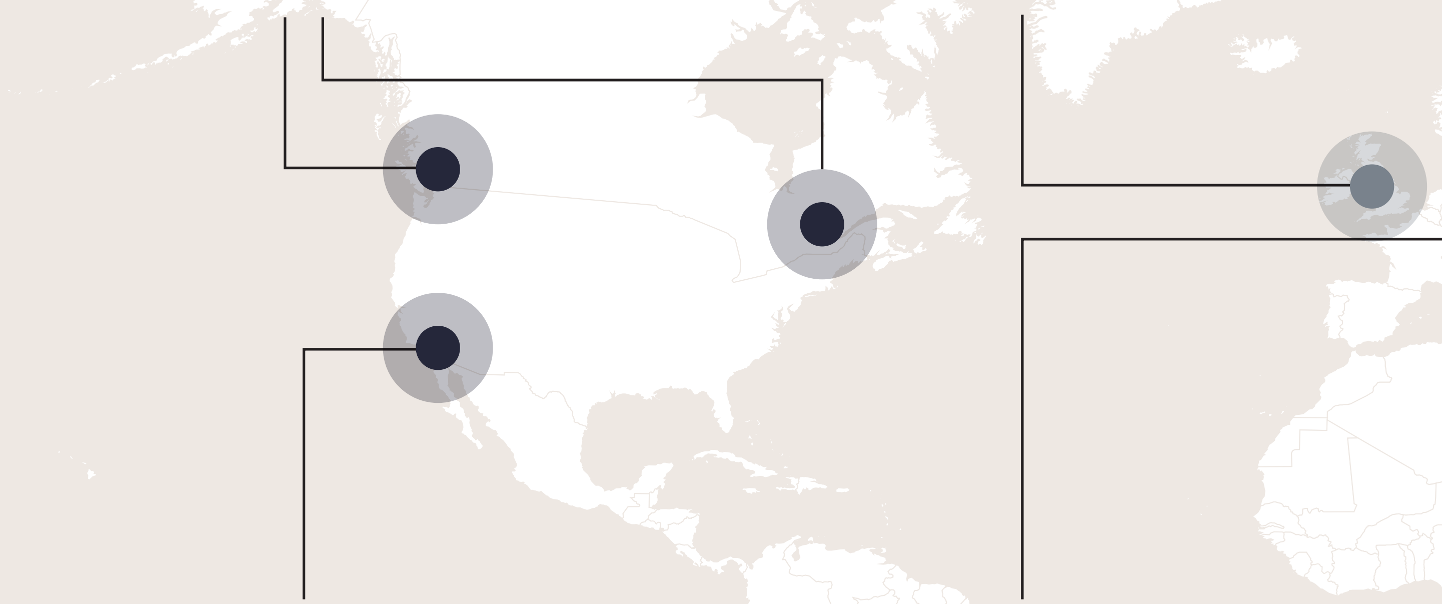
LUXURY STORE OPPORTUNITIES to watch

Canada: Oakridge Park, Vancouver & Royalmount, Montreal

- Oakridge Park is large scale urban mixed-use development JV between Westbank and QuadReal. The total retail element will extend to 1.2 million sq ft with a significant proportion dedicated to luxury. Retail element expected to complete 2024/25.
- Royalmount, backed by L'Catterton in partnership with Carbonleo, is a large scale mixed-use entertainment driven destination that aims to become the new Montreal 'midtown'. The retail element will extend to 170+ stores with Louis Vuitton, Gucci and Tiffany already committed to the scheme. Completion slated for 2024.

London: Northern segment of Bond Street

- Redevelopment projects in this area of the street will deliver much needed new space at attractive discounts to the neighbouring central pitch.



California, US: Middle Plaza, Menlo Park

- $100 million+ mixed-use development in Silicon Valley near Stanford University.
- Envisaged to be Silicon Valley's answer to Rodeo Drive with a highly affluent catchment.
- Brands already signed to the scheme include Roger Dubuis and Bulgari.
- First phase planned to complete in late 2023.

Europe: Smaller, highly affluent cities

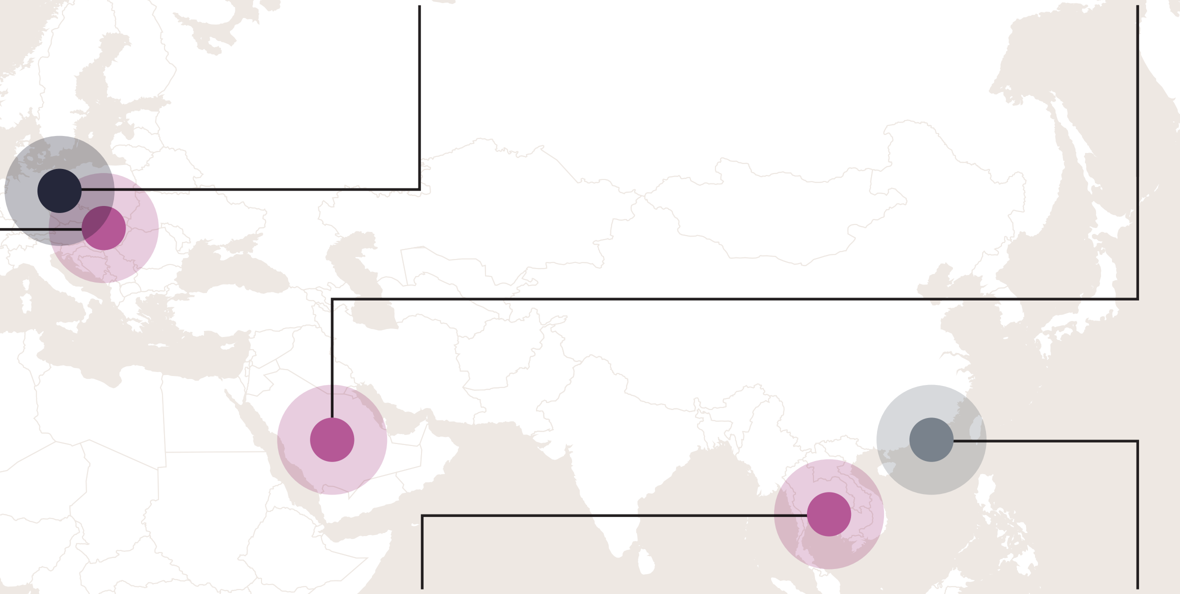
- There are a number of affluent domestic markets that are relatively underserved that potentially offer lower barriers to entry and therefore may prove attractive.
- Those with a growing international tourist appeal helped by the entrance of key luxury hotel brands will prove particularly attractive. For example, Vienna saw Rosewood Hotels open their first hotel in the city in 2022, bringing an increasing number of affluent tourists into the city.

Germany: Calatrava Boulevard, Düsseldorf

- Mixed-use development by CENTRUM Group and designed by Spanish architect Santiago Calatrava, architect behind the World Trade Centre Transport hub in New York.
- It is a highly visible site between the city's luxury Königsallee boulevard, Königstrasse, and Steinstrasse, and will feature a flowing interior street.
- Set to be completed by 2028.

Middle East: Saudi Arabia

- Sizeable young and affluent population.
- The country's strategy to diversify its economy is delivering new developments and opportunities for expansive brands.
- Direct operation of stores has become easier but partnerships are still key.



South East Asia: Vietnam and Thailand

- Relatively underserved markets with growing middle class and sizeable HNWI population.
- Luxury hotel & member club developments are bringing an increasing number of affluent travellers into these markets.
- Likewise, both are benefitting from growing tourism appeal to mainland Chinese tourists.

Hong Kong

- Full recovery in mainland Chinese visitors anticipated in 2024; strong bounce in luxury spend expected as a result.
- Key luxury pitches in the city still have rents significantly below pre-covid levels; this will provide an attractive proposition for brands not yet represented in the city.

Global city opportunities

Development generated opportunities: domestic focused markets

Emerging & growth markets

IDENTIFYING FUTURE OPPORTUNITIES IN US

Don Edrington

MANAGING DIRECTOR SRS
REAL ESTATE PARTNERS, US

Luxury retail in the U.S. has historically been clustered in major cities such as Los Angeles, New York and Miami. And while these key cities have moved back up the agenda for expanding brands we continue to see many luxury retailers looking to markets that are experiencing a new, significant growth in wealthy households. According to Henley and Partner's 2023 wealth report, cities like Austin in Texas, Scottdale in Arizona and West Palm Beach in Florida, are experiencing a strong growth in wealth. During the pandemic, major U.S. markets like New York, Los Angeles, and Chicago, encountered population shifts to states including Arizona, Florida, Tennessee, and Texas. Gucci and Hermes recently opened stores in Austin and Prada has plans to open there also. Versace, Chanel, Ralph Lauren and others have announced plans for significant growth in markets including Seattle, Denver, Nashville, and Las Vegas.

CONT P.17

But, securing opportunities is again becoming very competitive.

In the immediate aftermath of the pandemic there were increased opportunities in some markets for those brands wanting to expand their store network or looking to relocate and/or upsize existing stores. The quantum of these opportunities however, is dwindling as vacancy rates across a number of key luxury locations are falling. This is reflected in agent sentiment. In Q3 2021, our agents cited that availability across the major luxury locations globally against pre-covid levels averaged 2.2 on a scale of 1-5 (1= no change, 5 = significant change). In Q1 2023, this had reduced to 1.7. This was also reflected in sentiment around landlord incentives, which averaged 2.5 of out 5 in Q1 2021 and now stands at 1.8. It is this that is driving rents in some markets above pre-covid levels.

As historically been the case, the competitive nature of the market is elevating the value of good advice, more so than ever as the variety of deal structures and rental tone we're seeing across a number of retail markets has become increasing varied. This has been amplified by timing of recent deals, with some reflecting a pandemic discount that no longer exists, asset and landlord specifics. With existing opportunities on the wane, knowledge of potential off-market opportunities and future redevelopments is key, further reinforcing the need for good advice based on strong market knowledge.

Blurring of hospitality and luxury retail will help to generate new expansion opportunities, both at a market and street level.

We have seen the blurring of hospitality and luxury retailing intensify over the last five years. This has been via both incorporating a hospitality offer, as evidenced by Dior's reopened Paris flagship store and direct investment into pure hospitality businesses such as LVMH's acquisition of luxury hotel brand Belmond in 2019. The next evolution of this trend is the ability of luxury hotel and hospitality groups to enlarge and strengthen luxury retail destinations as they can bring an increasing number of HNWI into a market.

Many of the top luxury hotel brands, such as St Regis, Six Senses, Mandarin Oriental, Aman, Rosewood Hotels are actively expanding their global footprint. While much of this expansion is focused on traditional resort markets in the Caribbean and Indian Ocean, we are seeing a growing interest in city markets and leisure destinations in Europe and Middle East. For example, within a one mile radius of Bond Street, 10 new luxury hotels will open by the end of 2025 including the first London outposts for St Regis, Raffles and The Peninsula. Likewise, we are seeing similar new openings slated for Vienna, Munich, Amsterdam, Istanbul and new resort markets in Saudi Arabia.

New hotel openings by key luxury brands are also helping to create and elevate new luxury retail pitches. In London, the development of the St Regis on the corner of Conduit and Bond Street is helping to strengthen the appeal of this part of Bond Street to luxury retail brands as well as raise the profile of the southern end of Conduit Street. In Milan, the opening of hotel Portrait Milano by Ferragamo in Corso Venezia is helping to extend the luxury pitch with a number of luxury brands now happy to explore opportunities within the vicinity of the hotel, albeit helped by the fact that there is little to no availability within the primary luxury pitches of Via Montenapoleone and Via Bagutta. A similar trend is being observed in Madrid with the opening of the country's first Four Seasons Hotel and Private Residences close to Gran Via in the city, as the wider development includes a luxury retail area known as Galería Canalejas with recently secured tenants including Louis Vuitton and Jimmy Choo.

While demand will remain robust, we're expecting to see fewer new store openings in 2023.

In quantum terms however, we do think total new openings in 2023 will be down on that seen in 2022. This will be down to fewer opportunities in the Global Alpha cities, combined with slower store expansion in China now that the travel ban has been lifted.

While new store openings may reduce, demand will remain robust. This, alongside reduced vacancy will generate upward pressure on prime headline rents. For those key luxury destinations where rents are still below pre-covid levels, like Bond Street in London, Ortega y Gasset in Madrid and Canton Road in Hong Kong, now may prove to be an opportune time to secure new space.

What is clear is that the 'bargains' that may have existed in the immediate aftermath of the pandemic have dissipated with competition in the major luxury cities largely back to pre-covid norms. In some cases, demand is exceeding pre-covid norms pushing rents ahead of those seen in 2019. What is good news for expansive luxury brands, is that the potential opportunities for store growth have expanded beyond the traditional Global cities which will provide greater prospects for store growth.


BRUNELLO CUCINELLI

Key contacts

GLOBAL LUXURY TEAM

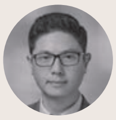
Savills dedicated Global Luxury Retail team has a wealth of experience and a comprehensive understanding of the luxury retail sector, enabling us to regularly advise and transact on behalf of our clients within this highly specialist market.

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 Salisbury Jones
Director, Prime Global Retail team
lsjones@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

Silvia Segale
Head of Leasing Dept, Milan
silvia.segale@savills.it

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

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

Marie Hickey
Director, Retail Research
mlhickey@savills.com

Kenny Lam
Associate Director, Retail Advisory, Middle East
kenny.lam@savills.me

Kelly Cheng
Associate Director, China
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

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

Nick Bradstreet
Head of Asia Pacific Retail
nick.bradstreet@savills.com

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

COUNTRY SPECIFIC

Leighton Hunziker – Australia
Director
lhunziker@savills.com.au

Jose Galvao – Portugal
Director
jose.galvao@savills.pt

savills