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REAL ESTATE

Kering on why luxury retail still needs real estate

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Boho in SoHo: Gucci's store on 63 Wooster Street in New York that officially opened in May. Image credit: Gucci

By MICKEY ALAM KHAN

New players, new locations and new shopping habits have changed the luxury market dramatically in the past five years, but stores remain a destination for shoppers and tourists, according to Gucci and Bottega Veneta owner Kering's top real estate executive.

Real estate is alive, well and adapting, points out Sergi Villar, global retail business development and real estate group director for Kering. One of the key reasons for this optimism is urbanization and its progress worldwide, with shopping mall transformations, Chinese domestic consumption, sustainability and omnichannel expectations supporting.

"Urbanization has historically been among the most significant influencers of real estate strategies for retailers," Mr. Villar said in a piece for Kering's Luxury Highlights corporate site. "And today the pace of urbanization is accelerating."

Fifty-five percent of the world now lives in cities, with the number to touch 60 percent by 2025.

Mall talk

Such urbanization has changed the real estate demand in cities from only mixed-use developments to omni-use complexes in which consumers live, work and play within the same seamlessly connected environment, Kering said. It also blurs the distinction between personal and professional lives in a hyper-connected and mobile urbanite lifestyle.

The upshot of urbanization is how it is changing historic city centers, creating a concentrated demand for retail luxury resulting in a proliferation of high-end brand boutiques in unexpected neighborhoods.

The knock-on effect is that these in-town points of sale are becoming destinations for luxury-hungry tourists. Not surprisingly, the travel retail market is growing fast, up 13 percent since 2017 and estimated at $79 billion last year, according to Generation Research.

That does not obfuscate the troubles faced by shopping malls whose customers are deserting in droves.

Real estate developers in the United States are now turning those purely retail malls into mixed-use projects with shopping, dining and entertainment options for their local communities.

Similar malls are popping up worldwide, with the K11 Musea in Hong Kong and Meydan One mall in Dubai as prime examples. In Japan's Tokyo, Yokohama and Osaka, urban shopping centers next to train stations have become "fashion buildings" targeting younger shoppers, Kering points out.

"Real estate is playing an important role in the rationalization of retail activities as consumer shopping habits evolve," Mr. Villar said.

Location, location, location

Over in China, optimizing the existing luxury store network in Tier 1 cities such as Shanghai, Beijing, Shenzhen and Guangzhou and opening new flagships in Tier 2 cities such as Chengdu, Hangzhou and Nanjing is the key focus of bricks-and-mortar retail real estate efforts.

Kering has recently signed a multi-city, multi-mall, multi-brand agreement with Hang Lung, one of the main Chinese property developers.

Such confidence stems from a switch in Chinese spending on luxury goods due to moves within the last year by China's government to lower import duties and taxes on luxury goods. These official moves were meant to shift luxury spending to the domestic market.

The government intervention may pay off. A Bain study for Italian luxury lobby Altagamma estimates the Chinese will soon spend 50 percent on luxury goods domestically versus 24 percent in 2017

That said, real estate investments in places preferred by Chinese inbound tourists such as Southeast Asia, Australia and Canada cannot be ignored, per Kering.

"China is still a key growth engine for the global luxury market," Mr. Villar said, "and real estate has to provide a showcase for luxury brands, wherever the shopper is."

Sergi Villar is global retail business development and real estate group director at Kering. Image copyright Vittorio Zunino Celotto/Getty Images

Green for greenback

Sustainability plays a key role in real estate development.

Besides efforts to keep stores green, millennial and Gen Z consumers will research online to learn more about a brand's supply chain and its sourcing, energy consumption, carbon footprint, social responsibility and sustainability policies and actions.

What these environmentally conscious consumers find affects their buying decisions, calling for new business models that make more efficient use of resources.

"And buildings are the physical embodiment of a brand's sustainability policy," Mr. Villar said.

How bricks click

The same younger generations want the convenience of bricks and clicks, not viewing online and offline shopping as two separate entities. Consequently, stores are no longer simply points of sale, but digitally enhanced destinations with appropriate spaces for luxury experiences.

Kering has put this philosophy into practice with its 10,000-square-foot Gucci store on Wooster Street in Manhattan's SoHo district downtown.

The store has a relaxed air with inviting, bright sofas, exposed bricks walls, 3D film screenings, bookstore and merchandise from sneakers to dresses. It is certainly a world apart from its uptown counterparts.

To entice digital natives into shopping in-store, amenities such as restaurants, cinemas, bookshops, dcor and exhibition spaces are now part of a real estate strategy focusing on creating fewer but larger and better-equipped flagship stores in core luxury areas in global destination cities, according to Kering.

THERE IS EVIDENCE that investing in bricks-and-mortar stores ups Web site and app traffic as well as brand awareness, the company points out, motivating online pureplays to expand to bricks-and-mortar stores. The RealReal, a leading luxury consignor of apparel, accessories and leather goods, is a key example.

"Real estate's strategy for the future is clear: provide the platform for true omnichannel experiences that leverage the strengths of both physical and digital," Mr. Villar said.