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RETAIL

Luxury retailers courting smaller, underserved affluent markets: report

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A new report from British real estate services company Savills shares insights regarding the best store opportunities for 2023. Image credit: Savills

By AMIRAH KEATON

Though the future looks bright for a few traditional shopping hot spots around the world, especially across Europe, luxury labels have been forced to pivot retail operations into a few new markets.

According to research from British real estate services company Savills, experts are observing a renewed ambition from retailers players to expand into rising global destination cities, directing spending toward previously unentered domestic markets. Informed by the geography of store openings over the last 12-18 months, Global Luxury Retail 2023 Outlook shares insights regarding the best store opportunities for 2023.

"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," said Anthony Selwyn, co-head of the prime global retail team at Savills, in a statement.

"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," Mr. Selwyn said. "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."

Retail race

In the aftermath of the pandemic's height, global spend and subsequent store developments have been reconfigured, says the company's specialist luxury retail research team

To start, Savills reports an 11 percent increase in worldwide store openings in 2022, versus the annual period prior.

On ownership, it appears that, once balance sheets leveled out, luxury's three top players have slowed down from 2021 retail acquisition speeds, while smaller luxury groups and independent operators have stepped up to claim a larger share of store openings.

PICTURE

Though LVMH, Richemont and Kering remain retail's major lessees, the conglomerates have diverted much of their attention in the past year to upsizing existing sites and relocating to larger units in more established markets, rather than scoping out new territory from scratch.

Categories of choice have included apparel and accessories players, which accounted for 64 percent of global luxury retail openings in 2022, up 21 percent year-over-year.

Jewelry and watch brands follow, having retracted slightly from 29 percent of the total openings share in 2021, falling to 24 percent of total openings in 2022. On the flip side, high-end homeware brands such as Fendi Casa and U.S.-based Restoration Hardware have increased global footprints, per expert analysis.

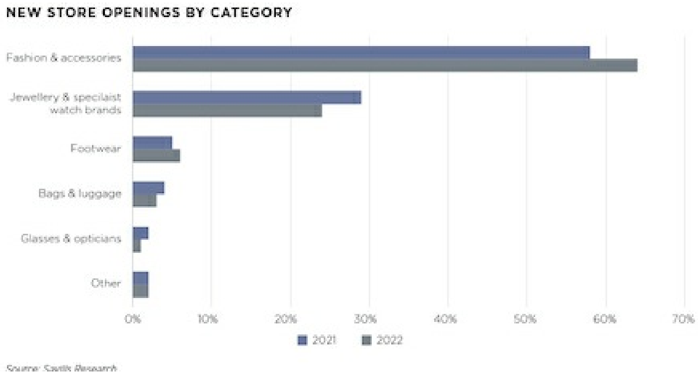

Image credit: Savills

New store openings in Europe comprised 23 percent of last year's total, beating out North American establishments, which accounted for just 14 percent of all worldwide openings, slipping from 2021.

Driven by a relatively fast recovery in luxury spend and significant post-pandemic tourism rates, retail investments landed Europe at a 77 percent increase in activity year-on-year.

A softening of rents aided the boost. Savills shares that prime headline rents on Bond Street, a premiere luxury shopping destination in London, went down by 27 percent between December 2019 and December 2021.

Though a gradual heightening in price is occurring, rents in the first three months of 2023 still turned out to be 17 percent below pre-pandemic peaks.

In terms of region, China dominated last year's activity, responsible for nearly 2 in every 5 new luxury retail leases last year, prefaced by a historically outsized performance, plus the fact that many brands proceeded to meet clients in their own domestic market, as residents eased back into international travel.

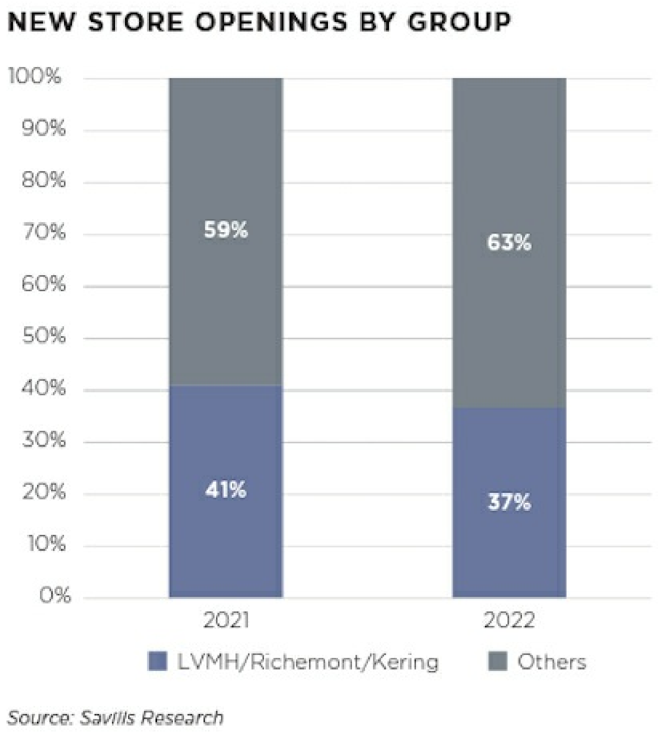

Image credit: Savills

"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 realize that they need to diversify their portfolios and Southeast Asia is the natural choice for this diversification," said Nick Bradstreet, head of Asia Pacific retail at Savills, in a statement.

"Stand out markets in this region include Singapore, Thailand and Vietnam," Mr. Bradstreet said. "What they all share 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."

New digs

On the topic, experts have spotted a burgeoning trend in retail development.

Exemplified by the growth of new store activity in Asian markets, reduced travel spend moved brands to rewire distribution strategies.

Expanding from luxury capitals like Shanghai, and leaning into previously underengaged destinations like China such as Chengdu, Chongqing and Fuzhou, merchandisers turned to a new tier of cities smaller, previously underserved affluent markets to fill fiscal gaps.

Europe experienced a similar trend in 2019, new store openings were limited to eight markets. In 2022, that figure jumped to 16.

The report also notes an influx of standalone luxury watch locations in Dublin, placing Ireland in the 25th spot of the top 30 nations with the highest watch import values. Three years ago, the country did not even place amid the ranking.