Welcome to the Savills Global Luxury Retail 2019 Outlook.

This edition explores the recent trends that are occurring within the luxury retail market; identifying strategic cities that are seen as ‘core destinations’ for luxury brands, the rising importance of international flagship stores, the dominance of the big luxury groups, and what they are investing in to cater for the evolution in luxury spend driven by Millennial and Gen Z consumers.

Global luxury spend increased in 2018 albeit the number of new store openings declined. Despite this global decline what was apparent in those new stores luxury brands opened was the strength of strategic flagship stores in core luxury areas in global destination cities. This is supporting resilience and growth in headline asking rents across a number of ultra-prime luxury locations. The all-important Chinese consumer may be spending more domestically but the flagship store in destination cities will play an ever more important role in delivering a brand experience that will help drive sales whether they are at home or online.

The democratisation of luxury with the growth in online, pre-owned and rental luxury and streetwear will also shape the store experience and portfolio strategies of luxury brands as well as generate new types of luxury occupiers. This has already been seen with the growth in luxury spend in the footwear and accessory segments. This has driven increased activity from specialist brands in these segments driving demand for smaller units in and just off luxury pitches.

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

Anthony Selwyn  
Head of Global Luxury Retail  

Oli Fraser-Loosen  
Head of Cross Border Retail Investment
The expected refocus on strategic and underrepresented markets materialised in 2018. Luxury brands opened new stores in 85 cities last year, down from the 118 cities seen in 2017. As a result total new openings globally declined 16% but largely at the expense of emerging luxury cities.

London regained its top spot accounting for 9.6% of all new luxury store openings globally with a 38% increase highlighting its resilience to Brexit uncertainty. Indeed, the depreciation of sterling in response to the Brexit result boosted international luxury retail spend in 2017, supporting requirements and subsequent new openings in 2018.

Hong Kong also benefitted from a return in Chinese visitor spend, with New York occupational demand supported by improving domestic conditions albeit compared to 2017 new store openings were down.

Bangkok and Dubai’s feature in the top five was largely boosted by increased store supply. For example, Bangkok saw the opening of the ICONSIAM mall that included a number of luxury stores. Dubai Mall’s Fashion Avenue extension also helped to propel the city into the top five.

### 2018 TOP 5 GLOBAL CITIES FOR NEW STORE OPENINGS

1. **LONDON**
   - 9.6% share of openings
   - 38% increase on 2017

2. **BANGKOK**
   - 6.7% share of openings
   - 667% increase on 2017

3. **DUBAI**
   - 6.4% share of openings
   - 340% increase on 2017

4. **PARIS**
   - 4.7% share of openings
   - -11% change on 2017

5. **NEW YORK**
   - 4.4% share of openings
   - -6% change on 2017

*Source: Savills. Note: excludes re-openings due to refurbishments, relocations and store-in-store openings. Includes airport and outlet stores.*
A retrenchment to core destination cities
The big luxury groups step up their dominance

While new openings declined last year this was largely at the expense of smaller independent brands as the top three luxury houses, LVMH, Kering, Richemont all increased new store openings globally in 2018.

As a result their collective share of new openings increased in 2018, accounting for almost a third. This expansion continued to be driven by core brands across each of the groups such as Louis Vuitton in the case of LVMH and Kering’s Gucci and Saint and Saint Laurent brands. In the case of Kering, the expansion of its global footprint was also supported by openings by some its smaller brands such as Bottega Veneta, Maison Boucheron and Pomellato.

Stronger growth in luxury accessory spend is influencing store expansion

The entry point for many luxury consumers is the accessory segment. As a result it remained the largest and fastest growing personal luxury goods segment in 2018 according to Bain & Company reporting a 4% growth. Since 2010 annual growth has averaged 9%, the highest across the headline categories, led by shoes and jewellery.

This trend is also being borne out in new store acquisitions. Specialist luxury footwear and jewellery brands increased global store openings by 54% and 2% respectively in 2018, while their respective share of total luxury store openings also increasing to 11% and 13%.

Source: Savills. Note: excludes re-openings due to refurbishments, relocations and store-in-store openings. Includes airport and outlet stores.
The rising importance of international flagships

Luxury spending globally increased 6% in 2018 according to Bain & Company, with Europe accounting for a third of sales, with forecasts pointing to further growth of between 3-5% per annum to 2025.

However, shifts in distribution and where the all-important Chinese consumers shop is elevating the role of flagship stores in terms of raising awareness, engagement and ultimately driving sales.

Chinese consumers continue to dominate accounting for a third luxury sales globally. Historically, this was driven by spend abroad but in 2018 much of this growth was focused within the domestic market. The Chinese Government reduced import duties last year that led to a small decline in luxury retail prices domestically. This, combined with the crackdown on the practice of Daijou (individuals acquiring goods overseas to sell to clients at home), helped boost luxury domestic spend in 2018 and is part of the Government’s wider initiative to rebalance the economy. Evolving preferences amongst Chinese travellers with a greater leaning towards ‘experiences’ over shopping has been an additional driver of this trend and was apparent in pretty flat tourist luxury consumption in 2018 according to Bain & Company.

Expanding domestic luxury spend is forecast to continue for Chinese consumers. Albeit, with more Chinese nationals travelling internationally, the importance of a flagship store in prime locations in key destination cities will play an ever more important role in raising awareness and engagement even if the purchase takes place at home.

This is a trend that is evident in the retrenchment of new store openings to key strategic and underserved destination cities in 2018.

This is also apparent in the growth of own store retailing. Luxury sales through brands own boutiques has been one of the fastest growing distribution channels as brands look to take more control of the experience they deliver to their customers. Forecasts point to a further 6% growth in sales through monobrand stores by 2025. This will be against a backdrop of declining wholesale sales through department and speciality stores, which will be more exposed to the growth in online that is forecast to reach a 25% share by 2025 up from the current 10% (Bain & Co).

Increasing online penetration in the luxury space will create challenges in some parts of the market as evidenced with wholesale performance. However, in terms of own store retailing it will elevate the role of the store as a way to enhance customer engagement in order to drive sales. A recent study by the ICSC in the US found that where a retailer opens a new store there is, on average, a 37% increase in web traffic to that retailer’s website from the immediate catchment highlighting how a store can raise awareness. We expect a similar effect exists for luxury brands and supports the increased use of experiential pop ups by brands to launch new products and collaborations. This will, and is, refocusing occupier demand on core luxury retail areas in key global cities.
European destination cities led luxury rental growth in 2018

Of the 26 global luxury locations tracked by Savills over a third reported year-on-year growth in 2018 with 50% maintaining headline rents. Six of the top nine performers were the key luxury locations in European destination cities with Asia Pacific cities taking the remaining top spots.

Paris was the lead performer with a 20% growth in prime indicative asking rents with Avenue Montaigne reporting a rise from €15,000 to €18,000 per sq m per annum over a 12-month period. This was driven by an improving tourist market, particularly from China, although this has been recently tempered by the gilet jaune protests in the city. Improved tourist spend in Hong Kong supported a return in occupier confidence and with it rental growth in its core luxury area.

The growth, and resilience, of headline asking rents across a number of ultra-prime luxury locations underlines how important strategically located physical stores remain for global brands. This is even more pronounced in heritage markets, such as Paris and London, where availability on its key luxury streets is heavily constrained.

Top Nine Global Cities For Luxury Retail Rental Growth

Source: Savills.
Global Luxury

<table>
<thead>
<tr>
<th>City</th>
<th>Total Retail Sales (US$ bn)</th>
<th>Overnight Visitor Arrivals (millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NEW YORK</td>
<td>$270.1</td>
<td>13.1</td>
</tr>
<tr>
<td>LONDON</td>
<td>$181.1</td>
<td>18.9</td>
</tr>
<tr>
<td>MIAMI</td>
<td>$93.4</td>
<td>8.1</td>
</tr>
<tr>
<td>LOS ANGELES</td>
<td>$170.5</td>
<td>7.2</td>
</tr>
<tr>
<td>SAN FRANCISCO</td>
<td>$38.3</td>
<td>2.3</td>
</tr>
<tr>
<td>PARIS</td>
<td>$153.4</td>
<td>15.8</td>
</tr>
<tr>
<td>LONDON</td>
<td>$181.1</td>
<td>18.9</td>
</tr>
<tr>
<td>MIAMI</td>
<td>$93.4</td>
<td>8.1</td>
</tr>
<tr>
<td>LOS ANGELES</td>
<td>$170.5</td>
<td>7.2</td>
</tr>
<tr>
<td>SAN FRANCISCO</td>
<td>$38.3</td>
<td>2.3</td>
</tr>
<tr>
<td>PARIS</td>
<td>$153.4</td>
<td>15.8</td>
</tr>
</tbody>
</table>

Source: Oxford Economics; Euromonitor; Local tourist offices (all data refers to 2018 apart from tourist numbers which refer to 2017). Household income data is based on Purchasing Power Parity in constant 2015 prices.
The democratisation of luxury – what does this mean for luxury destinations?

Much of the growth in luxury spend in 2018 was driven by millennials and their younger counterparts Gen Z. Chinese Gen Z’s (those born after 1998) in particular wield much greater spending power than their counterparts in other countries, accounting for a reported 15% of all household spending in China compared to 4% in the UK and United States.

Considering that 53% of the Chinese population are either Gen Z or Millennials the influence of this group on luxury brands and their stores will intensify as this generation enters the workforce and their incomes increase. Yet, what constitute as luxury and how these younger consumers prefer to engage with brands is very different from previous generations.

Streetwear, ‘experiences’, pre-owned, rental and off price have now become key elements of the luxury landscape driven by the preferences of millennial and GenZ consumers. Likewise the lower entry point offered by these segments has opened up luxury to a wider audience evidenced by the stronger sales growth seen for luxury footwear and accessories. Alongside this, the growth in online and social media has further democratised the luxury market and is reflected in the funding and acquisition trends of the large luxury houses such as LVMH and Richemont.

But, what does this mean for ‘stores’ and global luxury destinations going forward?

From a landlord perspective, what constitutes a luxury occupier is evolving as is the store experience. Luxury brand spaces are becoming more experience focused and digitally enhanced rather than just a store in the traditional sense. For some of the larger heritage brands this is resulting in a move towards fewer and larger stores in prime locations in key destination cities; stores that can provide the experience while also showcasing the full range of products. For example, Hermès new Las Vegas 1,200 sq m store that opened in 2018 is almost three times bigger than the brands first store in the city.

In London, Loewe moved their flagship store into a bigger 500 sq m space on Bond Street, the city’s premier luxury street.

The emergence of specialist luxury footwear and accessory brands opening their own boutiques is also driving demand for smaller units. The size of new luxury footwear store openings averaged 230 sq m in 2018 with the smallest unit being 60 sq m. In core luxury areas where availability is constrained we have seen some of this demand spill into neighbouring areas. However, as sensitivity to total occupational costs is more pronounced in this part of the market areas that can deliver profile and footfall at a sustainable rent are proving their longevity as emerging luxury locations.

Shorter leases and use of pop ups has also become a key strategy in the new luxury era. Prada launched ‘Prada Spirit’ in Macau in 2018, the first in a series of experiential pop ups across key Asian cities, centred around a traditional café showcasing limited edition leather goods. Likewise the launch of Louis Vuitton’s new menswear line by streetwear designer Virgil Abloh was delivered via a series of pop ups designed as part exhibition/ part store. What is interesting are the locations selected for these pop ups. In the majority of cases the preference remains for locations in or close to traditional luxury areas. For others, such as the Louis Vuitton Supreme collaboration, this was not the case. While core luxury areas will continue to be a key target for brands physical aspirations there may be opportunities for fringe and emerging retail areas in a city to capitalise on the democratisation of luxury.
53%  THE SHARE OF THE CHINESE POPULATION THAT ARE MILLENNIALS OR GENZ

230 SQ M  THE AVERAGE SIZE OF A NEW STORE OPENED BY A SPECIALIST FOOTWEAR BRAND IN 2018
Investment activity across the big luxury houses has intensified over the last three years. Across the top 10, funding volumes (based on known values) reached $8.3bn, ten times that seen in 2016.

Half of this activity can be attributed to the houses adding to their stable of brands, with an increasing focus on specialist footwear, luggage and accessory brands in order to capitalise on the increasing spend in this part of the market. Capri Holdings (formerly Michael Kors Group) acquired Jimmy Choo for a reported $1.35bn in 2017, which was followed by a number of new store openings the following year in previously underserved destination cities such as Vancouver, Copenhagen, Oslo and Florence.

The remainder of investment activity, however, highlights the evolution and democratisation of luxury away from traditional luxury goods. The top 10 luxury houses have invested just over $3.4bn into online retail and social platforms, including the well-publicised acquisition of Yoox Net-a-Porter by Richemont and LVMH Ventures stake in streetwear e-commerce market place Stadium Goods, with the company subsequently acquired by Farfetch.

Shifting luxury spend towards experiences, leisure and services was no doubt one of the drivers behind LVMH’s $2.6bn acquisition of Belmond Hotels in 2018. It is also evidenced in the funding trends of private equity firm L Catterton, of which LVMH is a partner. For example, since 2016, 21% of funding deals have been into restaurant & bar brands/operators.

Future investment is likely to follow a similar trajectory, with funding to emerging luxury segments such as streetwear, online & social platforms, pre-owned and rental brands expected to increase as the houses diversify. As we have seen historically, this investment will activate future store requirements and like the big luxury houses their focus will be on flagship spaces in key global destinations.

**Investments By The Top 10 Luxury Groups, 2016-18 (US$ millions)**

- **$4,570m** FASHION BRAND
- **$3,404m** ONLINE RETAIL / SOCIAL PLATFORMS & APP SERVICES
- **$1,350m** SPECIALIST FOOTWEAR BRAND
- **$2,600m** HOTELS & RESORTS
- **$733m** BAGS, LUGGAGE & ACCESSORIES

*Source: Pitchbook. Note: Based on deals between January 2016 and December 2018 where investment value is known. Includes acquisitions and early & later stage VC. Excludes LVMH private equity arm L Catterton.*
Savills Luxury Retail Highlights
Savills Luxury Retail Highlights

KÖNIGSALLEE 56, DÜSSELDORF

VIA ROMA 305, TURIN

VIA RIZZOLI 16-18, BOLOGNA

KÖNIGSALLEE 56, DÜSSELDORF

28 OLD BOND STREET, LONDON

255 RUE SAINT-HONORÉ, PARIS

89 RUE DES MARTYRS, PARIS

L'AUBETTE, STRASBOURG
2019 Outlook

The retrenchment to core destination cities seen last year will continue in 2019. Smaller, emerging and underserved destination cities will prove attractive as and when specific opportunities arise. However, shifting Chinese spend patterns suggest it will be major Chinese and global destination cities that will be the main focus for those luxury brands wanting to expand or improve their physical profile.

As a result we expect the move towards larger flagship stores that deliver digitally enhanced experiences and showcase the full product line by the bigger luxury houses will intensify in 2019, with core luxury areas/streets being the key targets for this initiative. This will maintain prime headline rents in these locations.

Alongside this, greater use of experiential pop-ups by the heritage luxury brands will also become more frequent. For those landlords controlling luxury properties/areas in destination cities the need to adopt a more flexible leasing approach that can facilitate the aspirations of luxury brands, and in turn enhance the appeal of their properties, will need to be a key consideration.

Strong growth in the footwear and accessory segments will also mean that demand for smaller units, particularly those in core or fringe luxury areas/streets in large global destination cities, will be robust in 2019. However, sustainability of occupational costs will be key to maintaining demand and rents.

It will be the evolution of what constitutes luxury and the funding trends of the large luxury and private equity houses, however, that will really shape the physical luxury landscape in 2019 and beyond. Funding into streetwear, luxury pre-owned and rental brands and retailers, which largely exist with online only platforms, will help support the move into physical spaces. As seen with other online brands that have transitioned, the major global destination cities will be their primary focus with fringe luxury and emerging areas within these cities likely to offer the most attractive opportunities.

For landlords, this evolution will require more openness to what constitutes a luxury occupier. It will also require a greater degree of flexibility in regards lease terms and what occupiers may want to do with their space as the luxury store experience is set to go through the most significant change.
Key Contacts

CROSS BORDER
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’d like further information on how Savills Global Luxury Retail team can help you, please don’t hesitate to contact one of our experts across the globe:

Anthony Selwyn
Head of Central London & International Retail Agency
aselwyn@savills.com

Laura Salisbury Jones
Director, London & International Retail Agency
lsaliburyjones@savills.com

Carlootta Matteja
Associate, International Key Account Manager
cmatteja@savills.de

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

Oli Fraser-Loonen
Head of Cross Border Retail Investment
olflooen@savills.com

Kenny Lam
Associate Director, Global Cross Border Client Representation
klam@savills.ca

Matt Shapiro
Associate Director, Retail Agency
matthew.shapiro@savills.com.cn

COUNTRY SPECIFIC

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

Jordan Karp – Canada
Head of Canadian Retail Services
jkarp@savills.ca

Joey Chio – China
Head of Retail Tenant Representation
joey.chio@savills.com.cn

Christian Nehme – France
Head of Retail
cnehme@savills.fr

Faustine Godbert – France
Associate Director, High Street Retail
fgodbert@savills.fr

Daniel Kroppmanns – Germany
Director
dkroppmanns@savills.de

Julia Milanovic – Germany
Associate, Retail Agency
j米兰vici@savills.de

Nick Bradstreet – Hong Kong
Managing Director, Retail
nbradstreet@savills.com.hk

Francesca Cattagni – Italy
Head of High Street Leasing
francesca.cattagni@savills.it

Murli Melon – Malaysia
Vice President
murli.melon@savills.com.my

Thomas Frogner – Norway
Partner, Malling & Co
thomas.frogner@mailling.no

Lars Simen Paulgaard – Norway
Partner, Malling & Co
lars.simen.paulgaard@mailling.no

Cristina Cristovao – Portugal
Director
cristina.cristovao@savills.pt

Miah Yang – South Korea
Senior Director
mayang@savills.co.kr

Stephanie Lau – Singapore
Manager
stephanie.lau@savills.com.cn

Paola Tellos De La Mata – Spain
Director
paola.tellos@aguirrenewman.es

Daniel Jimenez – Spain
Director
daniel.jimenez@savills-aguirrenewman.es

David Barragan – Spain
National Director
david.barragan@savills-aguirrenewman.es

Gabrielle Hemmerlind – Sweden
Gabrielle.Hemmerlind@savills.se

Tiffany Luckett – UK
Associate Director
tluckett@savills.com

Susan Kurland – USA
CoHead, Executive Vice President
skurland@savills-studley.com

Victoria Oliva – USA
Managing Director
voliva@savills-studley.com