SAVILLS *GLOBAL LUXURY* RETAIL

The Geography of Luxury Retail:
2018 Outlook

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Shaping Retail.

SAVILLS *GLOBAL LUXURY* RETAIL

Welcome to the Savills Global Luxury Retail 2018 Outlook.

This edition delves into the geography of luxury retail; identifying which cities have had the most luxury store openings this year, what markets offer attractive expansion opportunities, and where are the emerging investment markets in Europe. We also detail our 2018 outlook for the global luxury retail property market.

The unexpected bounce in luxury spend this year, with forecasts through to 2020 revised upwards, should feed positively into occupational demand in 2018. Improved luxury spend by Chinese consumers points to a resurgence in store requirements in China, and in those markets that receive high numbers of Chinese tourists, such as Hong Kong and Macau. However, this activity will be relativley constrained compared to historical highs with the focus very much on the prime retail locations in these cities.

Globally, however, 2018 will see a greater focus on strategic and under-represented markets. This is reflected in the target cities identified by luxury brands. Savills track the active requirements of 30 luxury brands globally, with the top target cities in Europe being Frankfurt and Munich, with Paris and London also featuring in the top five. In terms of global targets it is the US markets that dominate with Miami, New York and Los Angeles all identified as key cities for new store openings in 2018/2019.

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 within 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-Looen

Head of Cross Border Retail Investment

Refocus on destination markets steps up a gear in 2017

In 2016, China and Middle East accounted for 17% of all luxury store openings, compared to 9% in 2017.

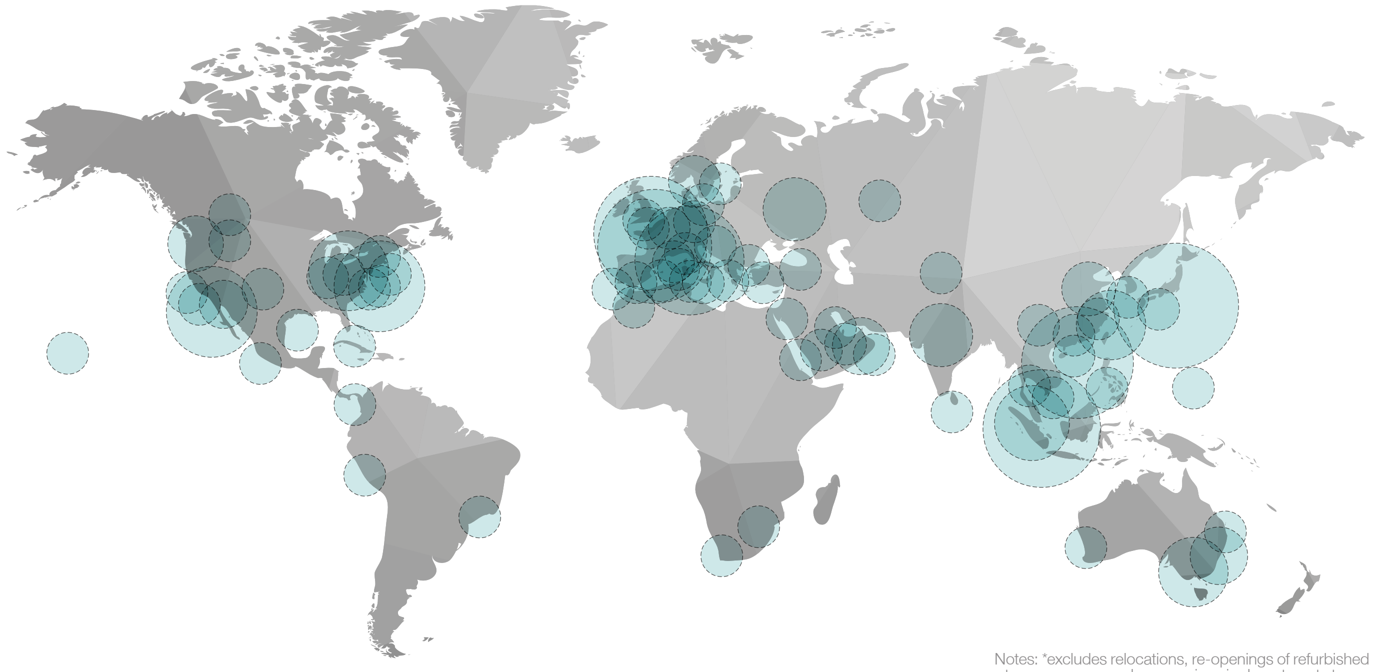
The slowing growth in personal luxury goods spend in 2016 was apparent in the volume of new store openings in 2017, with the appetite to agree to new leases, and therefore open new stores, somewhat muted. Global new store openings* by luxury brands will be in the region of 350 by the end of the year, down on the c470 reported for 2016.

While luxury brands have opened fewer stores this year, what stores they have opened have been predominately focused on destination cities in Europe, North America and Asia Pacific markets beyond China. All these regions have seen a proportional increase in share of new openings in 2017. In contrast, China and Middle East reported proportional declines.

In 2017, Europe accounted for 38% of all luxury openings, with 28% in wider Asia Pacific and 20% in North America.

Luxury store openings in 2017

The refocus on destination and 'heritage' markets seen last year intensified in 2017 and is apparent in the cities that topped the rankings for new store openings. Paris bounced back topping the city rankings this year having ranked second in 2016, this was on the back of improved operating conditions as tourism to the city rebounded following the security events of late 2015.



Notes: *excludes relocations, re-openings of refurbished stores, pop-ups and concessions in department stores. Also excludes store openings by luxury beauty brands.

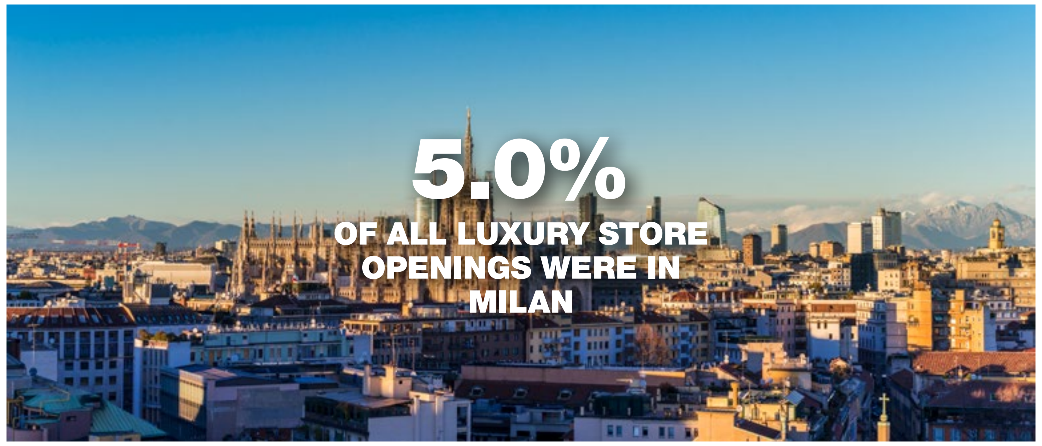
Top 10 cities for luxury store openings in 2017

While China saw fewer new store openings in 2017, the volume and habits of its residents when it comes to luxury goods spend had an important bearing on luxury store openings in the wider region. Singapore and Tokyo are expected to see year end store openings in line with that reported in 2016, driven in part by strong historical growth in Chinese tourism.

However, in the case of Tokyo its domestic spend market also remains a major attraction particularly as Chinese tourism growth has started to slow. Similar drivers have raised the appeal of Toronto, Los Angeles and Kuala Lumpur to expanding luxury brands, helping to place both cities in the top 10 for new luxury store openings in 2017.

Despite fewer new store openings globally, brand strategies to invest in more strategic locations and streamline their portfolios, has seen some brands relocate/consolidate stores and open larger stores in the 'best' locations in a given market; a trend also apparent in new store openings.

The average store size of new openings globally increased to c.3,300 sq ft this year up from c.3,100 sq ft in 2016. Even the most 'expensive' real estate cities such as New York and Tokyo saw average store sizes increase in 2017.



What markets offer attractive expansion opportunities?

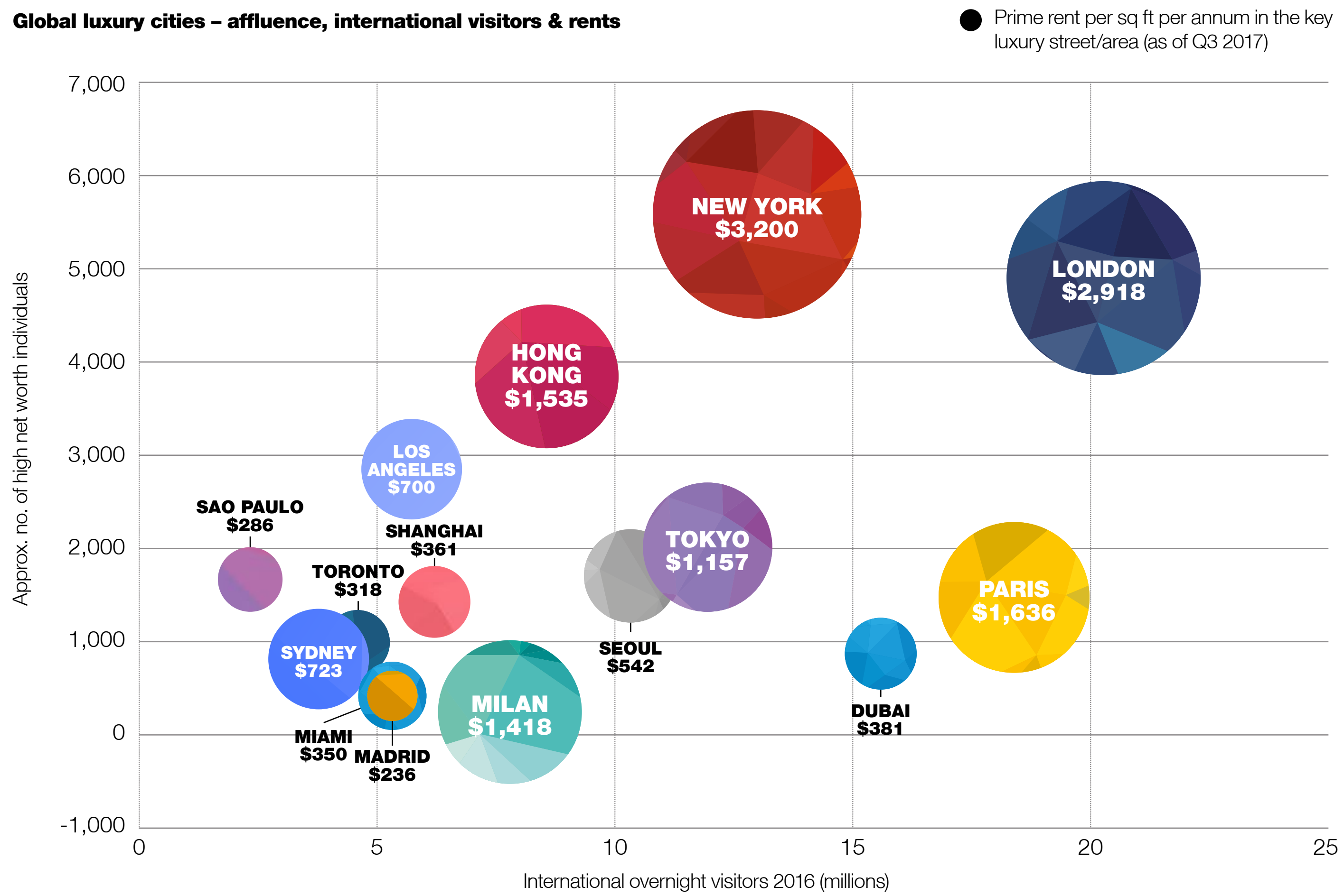
The headwinds facing luxury retailing in 2016 and into the early part of 2017 was exacerbated by high occupational costs in cities such as New York and London. It goes some way to explain why these cities did not feature in the top three for new store openings. Yet, examining the potential trading fundamentals in regards to size of market, international visitors and presence of High Net Worth Individuals (HNWI), both cities continue t`o look attractive. In fact, examining the key global luxury destination cities purely on potential macro trading indicators, the top three cities are New York, Tokyo and London.

Beyond these top three, there are a number of global luxury cities that stand out in terms of potential macro trading fundamentals and relative rental affordability. Toronto is one such city.

Toronto, for example, out performs Sydney in terms of population, presence of HNWI, overseas visitor numbers and volume of retail sales. Yet, prime rents on its key luxury street are less than half of that seen on Sydney's luxury equivalent. Toronto's relative 'affordability' and luxury spend potential has no doubt helped to drive its appeal to luxury brands and hence its feature in the top 10 cities for luxury store openings in 2017.

Other high growth visitor destination markets such as Dubai, Seoul, Miami, Los Angeles, Madrid and Tokyo, all of which have seen international overnight visitor numbers increase by more than 20% since 2013, are likely to prove attractive particularly in light of their relatively lower store rental costs in some cases. Albeit domestic trading conditions, brand saturation at a city level and total operating costs will be key to ensuring these locations are sustainable trading locations over the longer term.

Global luxury cities – affluence, international visitors & rents



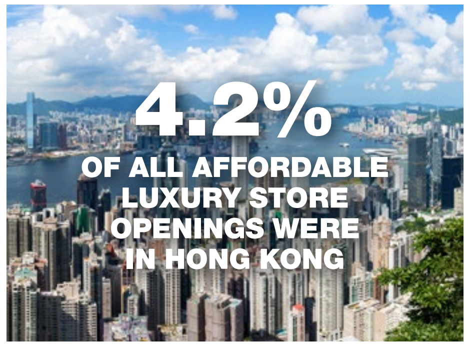
Source: Savills Research; Wealth-X, Mastercard Destination Index. Note: Rents are for luxury locations bar Seoul which is for high footfall location. Paris and London rents are ZA and therefore on a per sq ft basis would be lower than that detailed above.

Affordable luxury brands become more active

The rise in the 'affordable luxury' segment was apparent in store openings this year. The 'ultra luxury' segment continued to dominate, however, there was a proportional increase in store openings by 'affordable luxury' brands with them accounting for 44.9% of all luxury store openings this year up from 38.1% in 2016.

The top cities for 'affordable luxury' store openings were closely aligned with the wider luxury market, with Paris ranking top and London performing better, ranking second.

Other cities that are relatively well represented for 'ultra luxury' brands also ranked high when examining the 'affordable luxury' segment. For example, Shanghai placed joint ninth on this basis while not featuring in the headline all luxury top 10. Shanghai was also one of few markets that saw 'affordable luxury' store openings dominate in 2017, with them accounting for 57.1% of all luxury store openings.



Focus on European investment markets

Occupational demand for 'destination' markets in Europe is apparent in investment pricing with the largest visitor markets of London and Paris attracting the lowest yields.

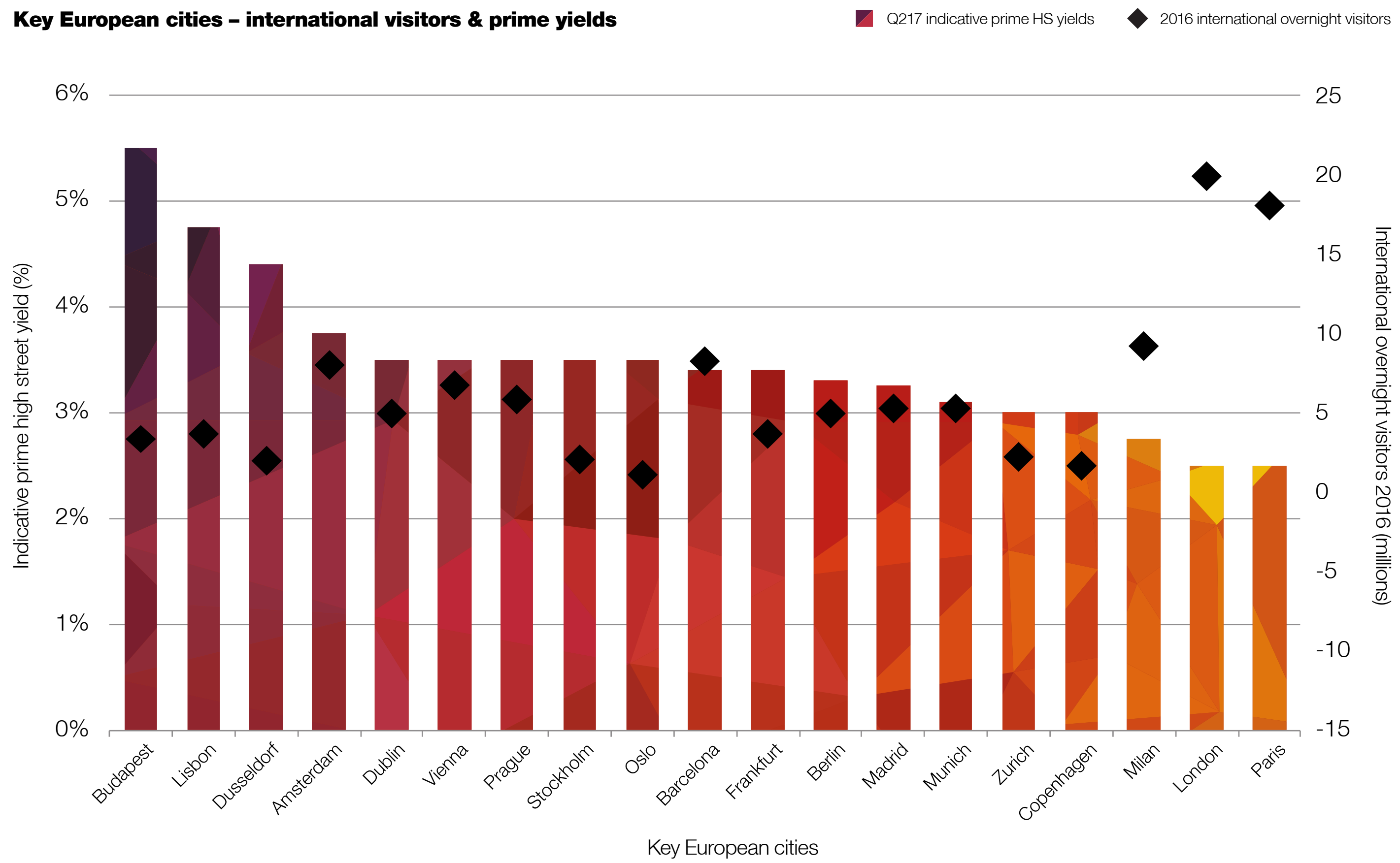
Additional features such as market transparency, political stability, legal systems, liquidity, occupier terms and domestic spend drivers have also had a bearing on investor attractiveness and in turn pricing.

With this in mind we have examined 19 European cities in regards to potential trading performance (retail spend, international visitors, presence of HNWI, relative affluence of domestic population) and occupier terms (average lease lengths and rent review structures) to try and identify those markets that may prove more attractive to investors in regards to current pricing (transaction yields).

The data model created based on the metrics detailed above, identified London as the most attractive investment market despite it being one of the most expensive cities to buy into, due to the size of its retail market and its relatively attractive occupier terms for investors/landlords (15 year upward only rent review leases being the norm in prime locations). Amongst European markets, Paris also featured highly as an attractive retail investment market, albeit was out ranked by Munich. This was due in part to some unique features of the French legal system such as 'Loi Pinel' ('Loi Pinel' grants tenants security of tenure providing them with the entitlement to either renew their lease at the end of the term or to receive compensation if the landlord refuses to renew).

While Munich is a much smaller retail market than London and Paris, its relatively affluent domestic population, attractive occupier terms from an investor perspective and its relative pricing (prime yields are 60 basis points higher than London and Paris), enhances its potential investor appeal. Similar factors placed Madrid and Barcelona in the top five in terms of investor attractiveness, although recent political uncertainty in the wake of the Catalan independence movement may temper investor confidence in Barcelona over the short term.

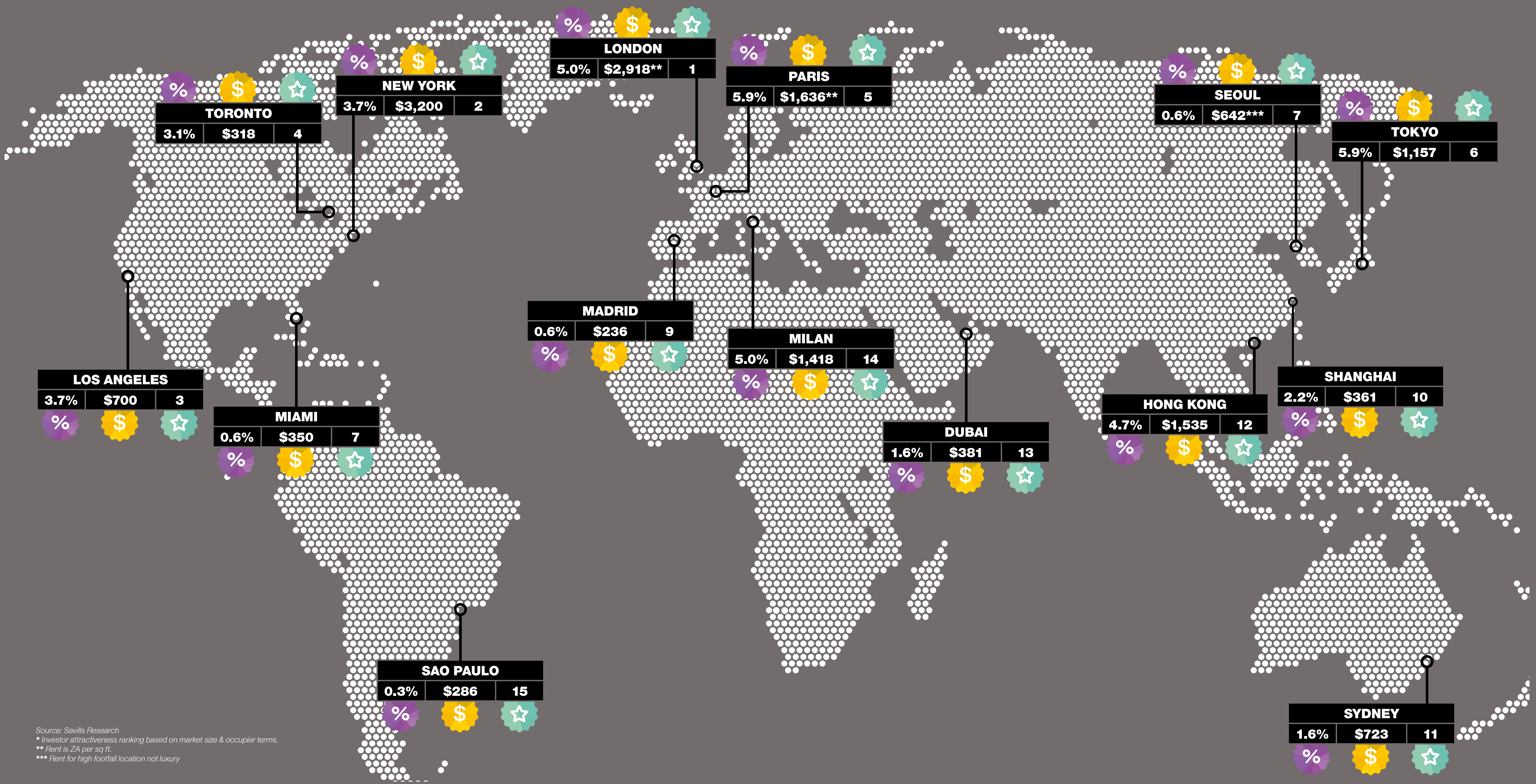
Key European cities – international visitors & prime yields



Source: Savills Research; Mastercard Destination Index.

Global Luxury Retail Cities

% Share of global luxury store openings | $ Prime luxury retail rent Q317 (US$ per sq ft per annum) | ☆ Global luxury city investor attractiveness ranking*



Source: Savills Research
** Investor attractiveness ranking based on market size & occupier terms.*
*** Rent is ZA per sq ft.*
**** Rent for high footfall location not luxury*

Savills Luxury Retail Highlights

DELVAUX (moving into former Pinet store)
NEW BOND STREET, LONDON

COCCINELLE
THEATINERSTRASSE, MUNICH

PRADA
CAUSEWAY BAY, HONG KONG

EMPORIO ARMANI
NEW BOND STREET, LONDON

VICTORIA'S SECRET
HUAIHAI ROAD, SHANGHAI

HUGO BOSS
OSTERGADE, COPENHAGEN

TIFFANY & CO
RUE DE LA PAIX, PARIS

ALEXANDER MCQUEEN
MADISON AVENUE, NEW YORK

DOLCE & GABBANA
VIA DELLA SPIGA, MILAN

ALAIA (moving into former SJ Phillips store)
NEW BOND STREET, LONDON

BURBERRY
NEW BOND STREET, LONDON

2018 Outlook

Global luxury goods spend has grown faster than expected in 2017 with Bain & Company forecasting a 6% increase in personal luxury goods revenue by the year end, with robust annual growth of 4-5% through to 2020. Much of this rebound is being driven by Chinese consumers and is likely to translate into improved demand for new stores in key Chinese cities. Cities in the wider region that attract significant numbers of Chinese tourists such as Hong Kong and Macau, should also see new store requirements increase. Globally however, we expect new store requirements to remain focused on strategic and under-represented markets in Europe and North America.

Expansion by 'affordable luxury' brands will continue to form a key part of the overall luxury market in 2018 with the major destination markets being prime targets for these brands.

As this is a segment that can support multiple brand stores in a given city we expect occupational demand to improve particularly in those markets most adversely impacted by the luxury headwinds of 2016.

The greater focus on strategic and under-represented markets for 2018 is reflected in active requirements across the 30 luxury brands that Savills track. In Europe, Frankfurt and Munich are top target cities for new store openings with Paris and London also featuring in the top five. In terms of global requirements it is US markets that dominate. Miami, New York and Los Angeles all feature heavily in brands target cities for 2018/2019. In the case of New York this suggests that the occupational headwinds it faced this year will start to abate in 2018.

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 Global Luxury Retail
aselwyn@savills.com

Oli Fraser-Looen
Head of Cross Border
Retail Investment
oflooen@savills.com

Marie Hickey
Director, Retail Research
mlhickey@savills.com

Laura Salisbury Jones
Cross Border & Central London
Retail Agency
lsjones@savills.com

James Burke
Cross Border
Retail Investment
jburke@savills.com

Carlotta Matteja
Cross Border Key Account
Manager, Retail Agency
cmatteja@savills.de

Key Contacts – Country Specific

Mark Simms – UK
Head of In Town Retail
msimms@savills.com

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

Jeff Lagowitz – USA
Senior Managing Director
jlagowitz@savills-studley.com

David Gialanella – USA
Executive Managing Director
dgialanella@savills-studley.com

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

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

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

Thomas Pasiecznik – Germany
Head of Retail
tpasiecznik@savills.de

Julia Milanovic – Germany
Senior Consultant, Retail Agency
jmilanovic@savills.com

Silvia Segale – Italy
Head of Retail Leasing
silvia.segale@larrysmith.it

Cristina Casanova – Spain
Director, Retail
ccasanova@savills.es

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

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

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

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