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Where to next? Mapping luxury's retail hotspots in 2023

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Where to next? Mapping luxury's retail hotspots in 2023

Where should luxury brands plant their flags in 2023 and beyond? With Chinese shoppers unable to travel in 2022 due to continued pandemic lockdowns and their luxury spend largely taking place domestically, brands have been looking to Europe with renewed interest, while openings across the Middle East and Southeast Asia are also picking up pace.

Globally, there was an 11 per cent increase in new luxury store openings in 2022 on the previous year, according to data from global real estate firm Savills, shared exclusively with *Vogue Business*.

Europe saw a 77 per cent increase in luxury store openings, and now accounts for 23 per cent of all new openings globally, up from 14 per cent in 2021, Savills reports, thanks to a relatively fast recovery in spend following the pandemic lockdowns, helped in part by the return of travel globally. European cities including Milan, Madrid and Amsterdam benefitted from both domestic and international tourist figures.

London was one of the most active luxury markets in Europe, maintaining the top spot in the region for new store openings, according to Savills. Much of the activity has been focused on Bond Street, London's long-standing luxury locale, though preferences in terms of where to be in the area are shifting.

In the wider Asia region (excluding China), the global share of new store openings increased to 12 per cent in 2022, up from 10 per cent the year prior, while the Middle East rose to 6 per cent from 3 per cent. North America's global share of new openings remained flat at 14 per cent, as competition for vacant premises in desirable areas remained high — prompting brands to look outside of major cities for opportunities.

China saw the most significant decline in new openings; it recorded 41 per cent of global share versus 55 per cent in 2021. The country's Covid surge, particularly during the second half of the year, caught many executives off guard, says Marie Hickey, director of research at Savills. Several brands agree that it remains an important market, and it's showing signs of quick recovery this year since Covid restrictions were lifted. However, amid pandemic outbreaks and tight regulations, brands have also realised the need to diversify their portfolios,

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with neighbouring regions such as Southeast Asia becoming an obvious choice, says Hickey.

There may be fewer new openings in 2023 as the post-lockdown flurry slows, Savills forecasts, but demand is expected to remain robust, driven by reduced rents in key luxury destinations, offering brands an opportune time to secure new, more attractive spaces. Hotel openings and government redevelopment projects in key markets could also help to create and elevate luxury destinations. The next evolution will rely on how luxury retailers and hospitality groups partner together to bring more high-net-worth individuals (HNWIs) into these markets, Savills believes.

The post-lockdown retail rethink

2023 is a key time for brands to secure new space, as rental costs in a number of key luxury cities, including London, Hong Kong and Toronto, are at least 10 per cent lower than levels seen pre-Covid in 2019, according to Savills.

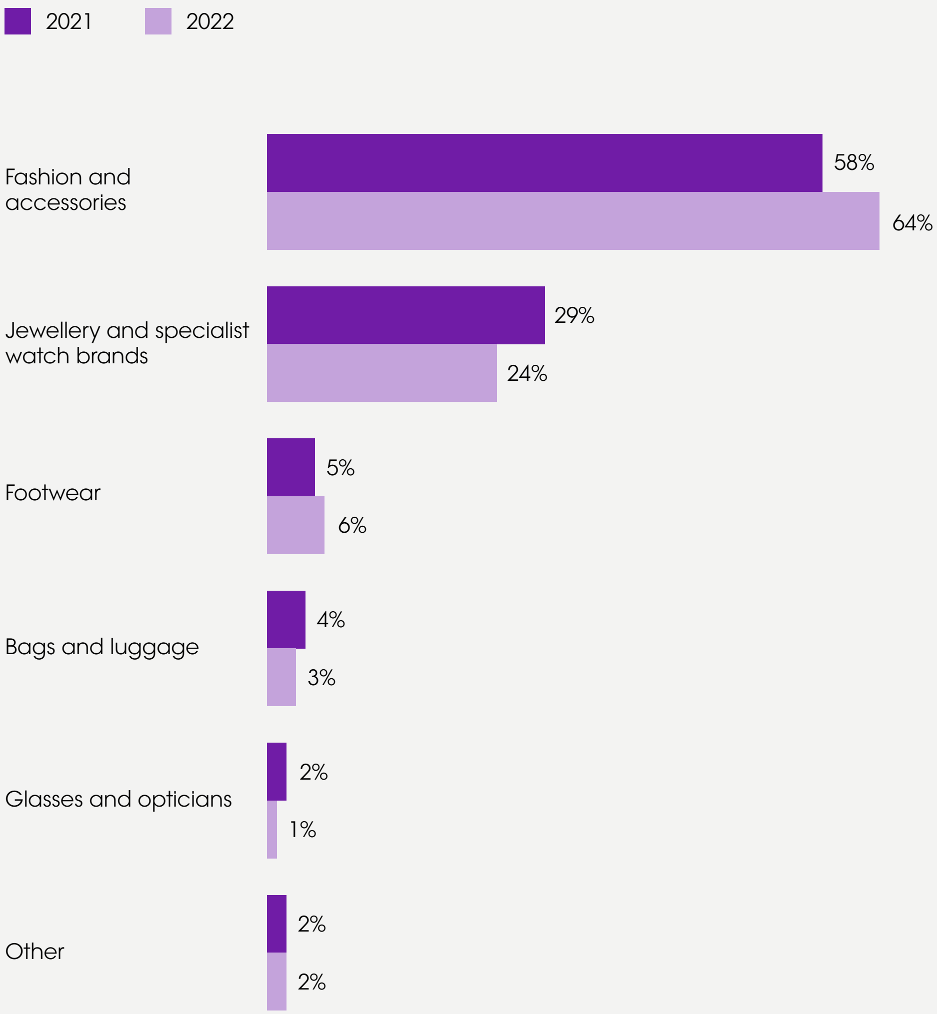
Ultra-luxury brands continued to dominate store acquisitions, accounting for 68 per cent of all new openings in 2022. However, the total share of the three biggest luxury groups — LVMH, Kering and Richemont — softened (37 per cent in 2022 vs 41 per cent the year prior) as they prioritised upsizing existing sites, including relocating to larger units in prime locations, which is not included in Savills's data for new openings.

While upsizing is not a new trend, increased availability and rebased rents in some key luxury locations due to the pandemic facilitated an increase in relocations, many of which were to larger spaces in better locations, says Savills's Hickey. "We saw a surge in activity over the last 12 months. Brands saw an opportunity to invest in their future."

In 2022, Dior unveiled its revamped Paris flagship — a 10,000-square-metre space with a gallery, restaurant, patisserie, guest suite for VIP customers and a full product range from ready-to-wear through to beauty. This month, Gucci opened its first private "Salon", a new creative concept for VIP customers, in Los Angeles; its new five-storey London flagship is expected to be of a similar stature when it opens in the autumn. The new salons "disrupt" the "conventional language and experience" of a typical boutique, as it offers an intimate space for "creative conversation, exploration and amusement", according to a statement from the brand.

In the US, a number of brands, including Canalia, Vacheron and Altuzarra, have upsized and/or relocated their stores on

New store openings by category



DATA SOURCE: SAVILLS

Madison Avenue in New York. The latest to do so is Hermès, which in October 2022 upsized to a new 1,881-square-metre flagship — one of its largest in the world. Hickey counts 29 new openings and relocations throughout the second half of 2022 in the area of Madison between East 57 and East 86 Streets. "The volume of activities on Madison is the strongest we've seen in the last 10 to 15 years." First movers have an advantage as "securing opportunities will become more difficult", she says.

Rents at Harbour City on Canton Road in Hong Kong are also below pre-Covid levels, prompting Dior, Hermès and Piaget to upscale to larger stores. Piaget's managing director for Asia Pacific, Matthieu Pougin, describes its new flagship as "a milestone" for the Richemont-owned luxury watchmaker and jeweller to "shape its future" in the region.

In London, Gucci, Moncler, Jil Sander, Off-White and Michael Kors are due to open new or relocated flagships on Bond Street in 2023 and beyond, while several other luxury players are looking for suitable premises in the area. Savills notes an increase in opportunities on Bond Street following the completion of a major redevelopment project at the northern end.

The geography is subtly shifting, however; the southern side — Old Bond Street — is losing its appeal for some fashion brands as it increasingly becomes seen as a destination for watches and jewellery, one luxury executive believes. Gucci is in the process of moving its London flagship and office from Old Bond Street to New Bond Street, where it will be closer to luxury peers including Miu Miu, Balenciaga, Chloé and Burberry; the latter is due to re-open its shuttered store this summer. For the first time in its evolution, the central part of Bond Street has become the most desired location among luxury brands, says Savills.

PHOTO: COURTESY OF VERONICA BEARD

Smaller, highly affluent cities

Smaller "alpha" cities, such as Milan, Madrid, Amsterdam and, outside of Europe, Toronto, are having a moment thanks to elevated hospitality offerings and modern retail developments, which are raising their profiles and attracting HNWIs, says Hickey. ("Alpha" cities sit two tiers below London and New York, which are classified as "alpha++" and one tier below "alpha+" cities such as Paris, Hong Kong, Shanghai, Beijing and Tokyo, according to the Globalisation & World Cities Research Network).

In Montreal, for example, new mega mall Royalmount, which is backed by LVMH's private equity firm L Catterton and property developer Carbonleo, aims to become the new midtown when it opens in 2024; it is expected to house over 170 stores, with Louis Vuitton, Gucci and Tiffany & Co already committed to the scheme.

Madrid's recent opening of luxury shopping centre Galería Canalejas — which is part of the larger Canalejas Complex that also includes the Four Seasons Hotel Madrid (the first Four Seasons offshoot Hotel in Spain) and the Four Seasons Private Residences — is also promising, already attracting the likes of Louis Vuitton, Fendi, Off-White and Loewe. Meanwhile, Hermès, Balenciaga and Gucci are targeting the German cities of Hamburg, Munich and Düsseldorf.

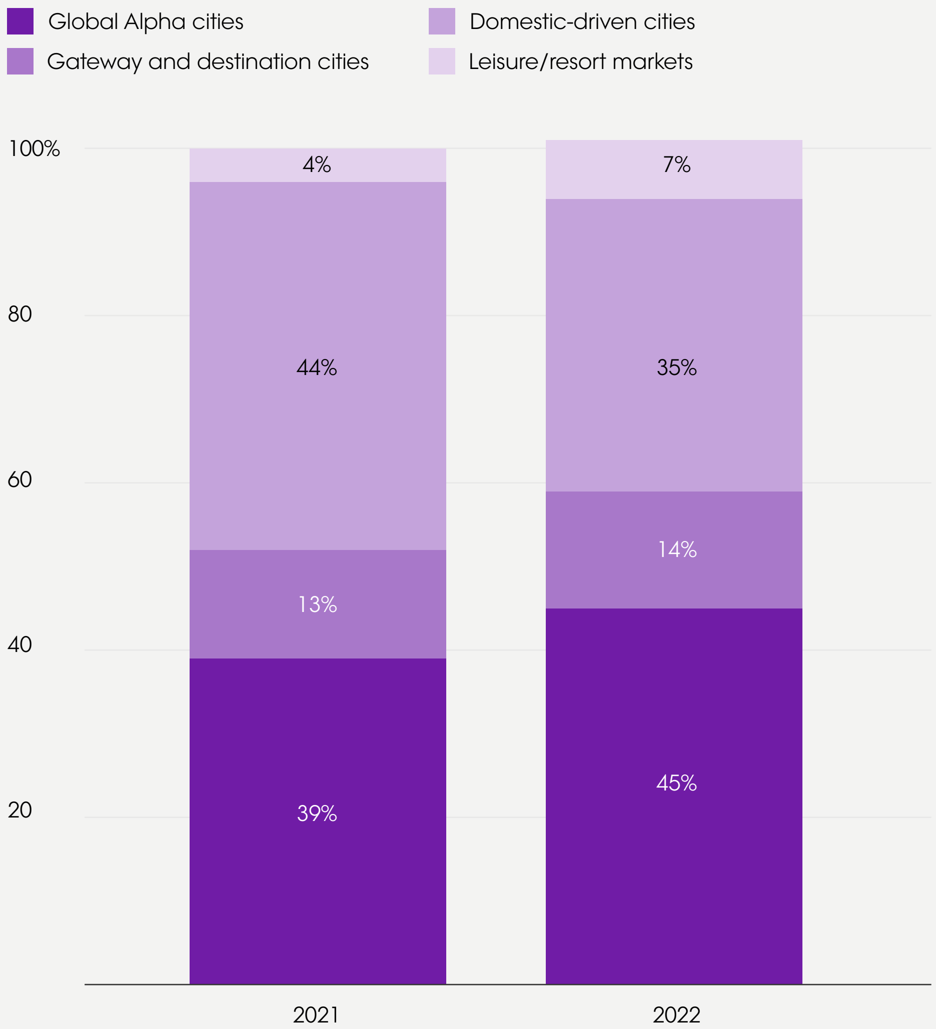
Savvy project developers are having conversations with potential luxury tenants years ahead, Hickey observes. "That can have an important bearing on the configuration of the space. The developer can rethink their floor plans rather than build something that doesn't meet (a luxury brand's) requirements and is therefore not of interest to them."

Brands should keep an eye out for new hotel openings, which can help to create and elevate a luxury destination, Hickey advises. Some luxury groups may want to follow LVMH's 2019 acquisition of luxury hotel brand Belmond and directly invest in pure hospitality businesses. For others, there may be an opportunity in top luxury hotel brands, such as St Regis, Rosewood, Aman, Mandarin Oriental and Six Senses, which are actively expanding their global footprint. Ten new luxury hotels will open within a one mile radius of Bond Street by the end of 2025, including the first London outposts for St Regis, Raffles and The Peninsula, according to Savills. Similar new openings are also slated for Vienna, Munich, Amsterdam, Istanbul and Saudi Arabia.

Opportunities in North America

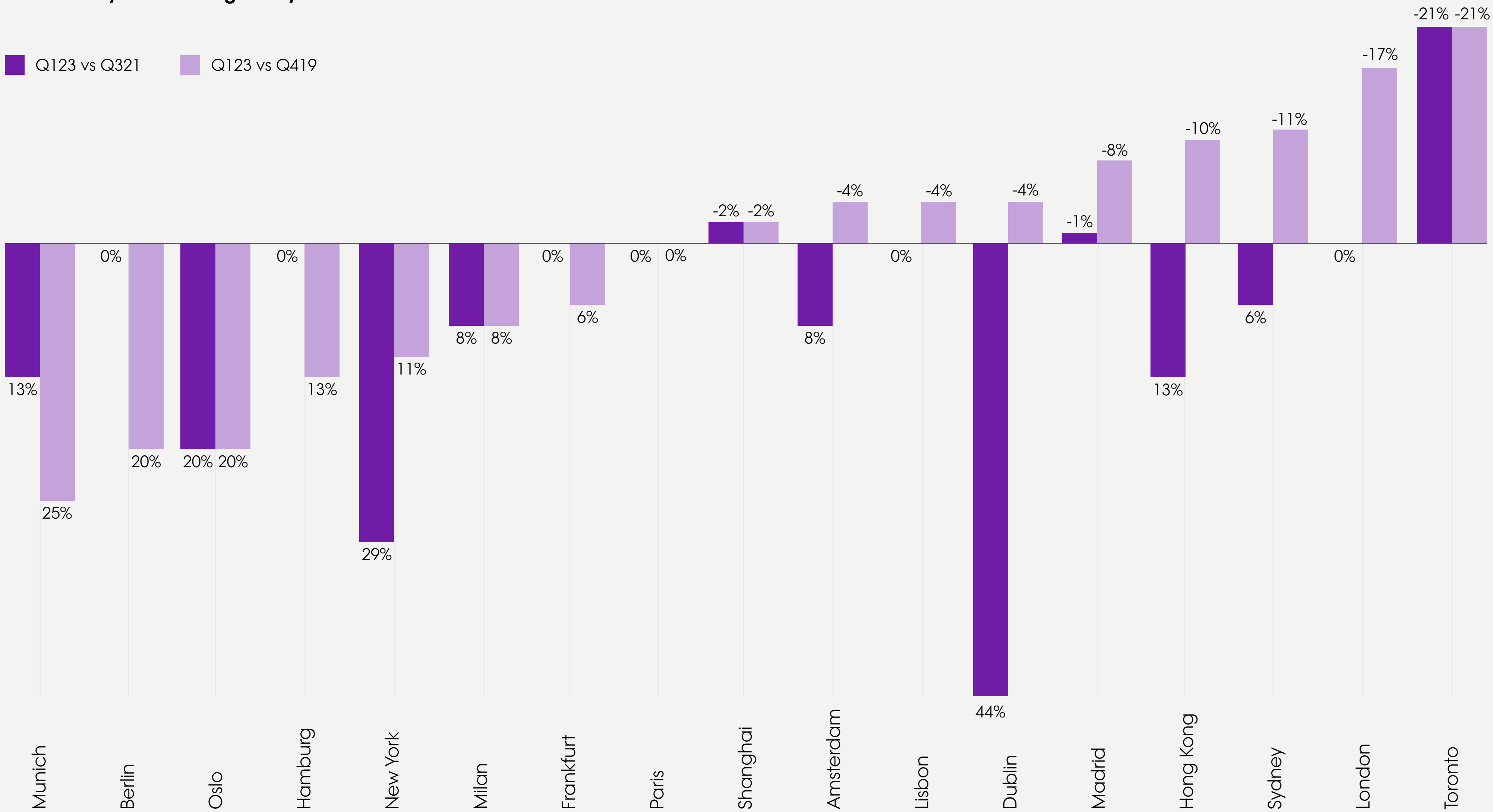
While key cities including New York, Los Angeles and Miami are still a priority, luxury brands are increasingly looking to regional cities in the US that are

New store openings by type of market



DATA SOURCE: SAVILLS

Prime luxury retail rents globally



DATA SOURCE: SAVILLS

experiencing new significant growth in wealthy households. Investment migration consultancy Henley & Partners has identified Austin, Texas, Scottsdale, Arizona and West Palm Beach, Florida as highlights. States including Arizona, Florida, Tennessee and Texas also hold new appeal following an influx of wealthy residents during the pandemic.

"Over these next few months, you'll see us continue our 'Quest West', with the opening of another location in Las Vegas, and entering Los Angeles, Atlanta and Seattle," says Carrie Baker, president of Canada Goose. The brand plans to launch in malls including King of Prussia in Pennsylvania and American Dream in New Jersey, she adds. "With just nine stores today (in the US, out of a global total of 51), we've only scratched the surface."

Offering an experiential destination is a priority, adds Baker. Canada Goose has been rolling out new retail stores with experimental and multi-sensory concepts, such as cold rooms with fake snow to test the product in the applicable climate. "Experience is the critical differentiator, especially for luxury brands. People crave connection — to people, to brands, to stories."

US-based womenswear brand Veronica Beard is planning for "exponential" retail growth over the next 18 months, with 10 store openings planned in 2023 and five more already on the docket for 2024, president Stephanie Unwin tells *Vogue Business*. That includes doubling its square footage on Madison Avenue, in Miami and Los Angeles, as well as opening in the Southeast in Charleston, Charlotte, Tampa and Naples, and California in Marin, San Diego and Newport Beach. There has been a "reshaping" of the US landscape due to Covid migrations, says Unwin.

Veronica Beard also recently opened its first store in Canada, in Toronto, joining Alexander McQueen, Celine and Saint Laurent. Ferragamo, Rolex, Alexander Wang and Van Cleef & Arpels will open flagships on Toronto's Bloor Street later this year.

Expansion in Asia

China remains an important luxury market, accounting for around 17 per cent of global sales in 2022, according to consultancy Bain & Co. However, Southeast Asia has drawn luxury's attention over the past 12 months.

Standout markets in this region include Singapore, Thailand and Vietnam, which have growing economies and expanding HNWI populations, including a widening profile of luxury hotels and members clubs. Vietnam has also been experiencing rapid urbanisation, increased trading activities, and robust

PHOTO: COURTESY OF CANADA GOOSE

growth in tourism. The Thailand and Vietnam economies are expected to show real GDP growth of 3.8 per cent and 6.1 per cent respectively in 2023, according to Globaldata's estimates. The retail market in Thailand is expected to grow by 7.7 per cent year-on-year to $166.5 billion in 2023.

Hong Kong's position and appeal has slipped in recent years, according to Savills, due to falling visitor arrivals from mainland China. The trend is expected to reverse in 2023, with Savills forecasting that numbers will return to pre-Covid levels in 2024 (55 million visitors are expected to come to Hong Kong next year), resulting in a potential jump in sales.

Piaget is one brand that sees an opportunity. "We are pursuing our development across Asia with projects of expansion," says Pougin. He identifies Hong Kong Island, Tsim Sha Tsui and West Kowloon as "strategic" environments for the brand. Meanwhile, there are plans to relocate its Bangkok boutique to luxury shopping destination Siam Paragon, already home to luxury brands such as Chanel, Louis Vuitton and Prada. "APAC is a place where we are starting in a fresh way post-pandemic," he says.

Key takeaway: New store activity globally has tended to follow the Chinese luxury consumer, but with many unable to travel and their luxury spend largely taking place domestically, luxury brands are identifying new opportunities in global cities that have prime headline rents at or below pre-Covid levels, as well as emerging markets that are boosted by redevelopment opportunities and a growing young and affluent population. While demand is expected to remain robust, there may be fewer new openings in 2023. A blurring of luxury retail and hospitality will help to generate expansion opportunities.

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