RETAIL

Report: US luxury retail expansion to continue unabated

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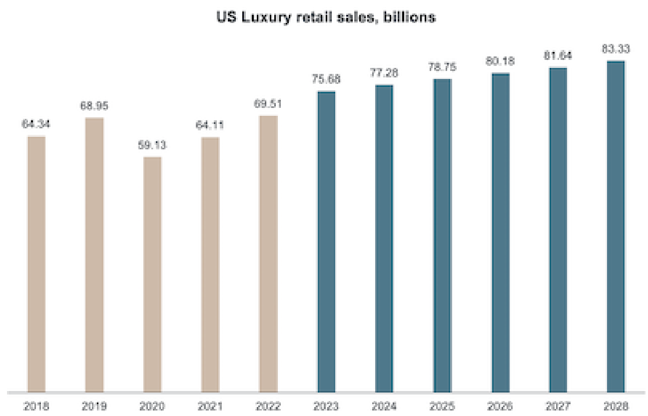


US Luxury retail sales, billions. Source Statista, JLL

By STAFF REPORTS

A new report from real estate firm Jones Lang LaSalle confirms that the luxury retail boom shows no sign of slowing down.

As one of the first categories to rebound after COVID, luxury retailers benefited from a combination of persistent pent-up demand and strong retail expansion, fueling even more growth in the past year. This latest report from JLL examined the activity of major luxury players and where they opened stores.

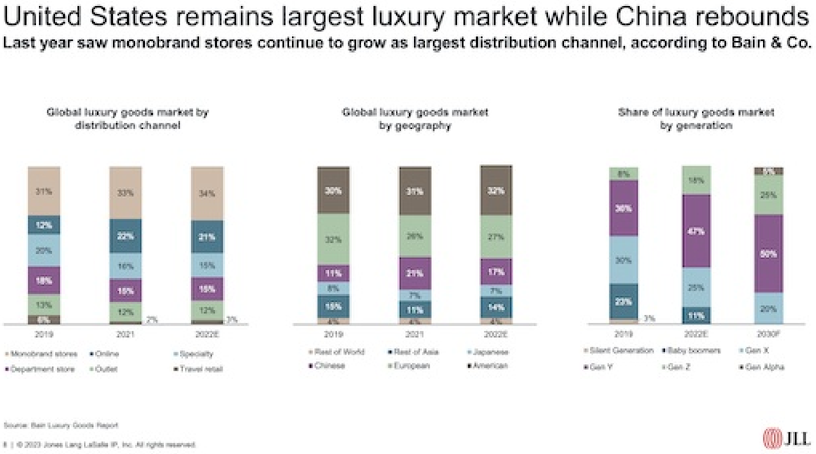
"Our research reinforced a familiar omnichannel story: strategic physical expansion plans, coupled with enhanced ecommerce capabilities, have resulted in robust gains for luxury retailers as they leased over 650,000 square feet in the last year," said C. Ebere Anokute, the report's author and manager of research for retail at JLL, in the research.

U.S. sales on the upswing

The United States saw luxury retail sales meet expectations and reach $70 billion last year, fueled by pent-up demand and a stable consumer base that experienced relatively little turbulence during the COVID-19 pandemic.

These consumers were eager to spend their ample savings on luxury products as the economy reopened, per the report.

On a global scale, the U.S. accounted for the largest share of the global luxury market, comprising 34 percent of overall sales, according to Bain & Company numbers cited in the JLL report.



United States remains largest luxury market while China rebounds. Source: Bain Luxury Goods Report

While it is likely that the market share will decrease in the near term as the Chinese economy reopens post-lockdown, overall luxury sales are expected to continue increasing, surpassing $75 billion by the end of 2023, Mr. Anokute pointed out.

"Growth in the luxury category was driven by sustained activity in traditional retail prime corridors across the country, as well as in suburban malls as hybrid work models contributed to suburban shopping center growth," he said in the report.

Stores rebound in popularity

The growth of luxury retail stores comes at an opportune time in the real estate cycle, as persistent demand continues to drive absorption across retail categories, surpassing pre-pandemic levels.

According to the report, the retail market overall is reporting solid fundamentals, with record-low deliveries contributing to overall retail vacancy dropping down to approximately 4 percent, which has in turn resulted in rent growth in most major cities.

Meanwhile, ecommerce's share of overall retail sales has stagnated at around 15 percent, down from a pandemic high of 16.5 percent.

A recent survey from *The Business of Fashion* found that 77 percent of frequent luxury shoppers plan to visit a physical luxury store as often or more frequently in the year ahead than they did last year.

Retailers like the Sunbelt

Luxury retailers continue to see value in maintaining a bicoastal presence, with New York and California accounting for 55.2 percent of luxury openings in the past year, JLL research found out.

"These retailers still favor New York City and Los Angeles due to their impressive foot traffic and unrivaled co-tenancy," the report said.

Census data also reveals that the pandemic flight from major metro areas reversed in 2022, with 11 of the 15 largest metros gaining residents compared with 2021.

However, many brands were also enticed by the newfound population growth in the Sunbelt, with cities such as Miami, Atlanta and Las Vegas experiencing a wave of new luxury openings.

Detroit emerged as a popular choice for new luxury openings, with new stores from brands including Balenciaga, Dior and Gucci. Indeed, Gucci opened its second Detroit-area location downtown on Library Street.

Madison Avenue is back

Many luxury retailers looking to open in New York City after the pandemic opted for SoHo in downtown Manhattan, thanks to the steady foot traffic provided by nearby residential populations.

Meanwhile, Madison Avenue, once a nexus for these brands, struggled as office and tourism populations made their slow return to midtown.

The gradual uptick in presence for both of those groups, combined with the resurgence of the affluent Upper East Side shopper has reignited interest in Madison Avenue, with the stretch between East 59th Street and East 72nd Street accounting for 43 percent of new luxury leases in New York City.

Punctuated by the opening of Hermes' 45,000-square-foot flagship at the corner of 63rd Street, the corridor also saw new leases last year from Valentino, Lanvin and Van Cleef & Arpels, among others.

Beverly Hills retains charm

No such shift in prime corridor desirability was observed in Los Angeles, per JLL.

Rather, luxury retailers doubled down on their affinity for the Beverly Hills Triangle, which accounted for the largest share of openings in Los Angeles at 41 percent.

"Aside from featuring some of the best co-tenancy of any luxury corridor in the country, the compact layout of Rodeo Drive, Beverly Hills' crown jewel, adds an intangible air of exclusivity to the area," the report stated.

The lack of new retail development in the corridor further contributes to the persistent demand for prime retail space.

The past year saw Givenchy, Loewe and Versace all open in Beverly Hills, in addition to Chanel, which unveiled its largest flagship store in the United States with a 30,000-square-foot lease at 400 North Rodeo Drive.

Malls are in

Luxury retailers continue to see significant opportunity in malls, with malls housing nearly 40 percent of all new luxury store openings last year.

As the stratification between mall types deepens, best-in-class malls continue to optimize their tenant mix, inevitably including a host of luxury brands in that roster, the report pointed out.

While most brands explored opportunities in both malls and street retail, some brands concentrated their expansion efforts on shopping centers across the country.

Alexander McQueen chose malls for all three of its openings last year in Atlanta: (Phipps Plaza), Boston (Copley Place) and Charlotte (South Park).

Dior made similar moves, opening at the Mall at Millennia in Orlando, Detroit's Somerset Collection and the Domain in Austin, Texas.

as are boutiques

In the wake of bankruptcies and store closures from retailers such as Barney's and Neiman Marcus, luxury consumers have demonstrated an appetite for a thoughtful curation of products from their favorite high fashion brands.

As a result, luxury boutiques have emerged as a growing category within the luxury space, comprising 12 percent of new luxury leases in the last year.

Major players include Kith, which opened a second location in its hometown of Brooklyn, New York in addition to new stores on Rodeo Drive in Los Angeles and in Miami's Design District, as well as The Webster, which originated in Miami and opened four stores this year in Atlanta, Austin, Palm Springs and Hackensack, New Jersey.

Four score

JLL identified four themes going forward.

First, low vacancy and low deliveries will affect luxury expansion.

Lack of available retail space is affecting every sector of the retail industry, and luxury players will soon contend with market conditions exacerbated by historically low deliveries, per the report.

Next, inflationary concerns will impact spending power of aspirational consumers.

While the core luxury shopper remains stable, consumers from lower income brackets are still dealing with inflation in almost every retail category, hindering their ability to make aspirational luxury purchases.

Third, resale persists as a priority for top luxury brands.

By encouraging resale, brands can extend the lifecycle of their products, minimizing waste and contributing to a more circular economy, aligning with growing consumer expectations, the report suggested.

Finally, consolidations are being observed among top luxury players.

Significant acquisition activity among the largest luxury brands indicates a less varied pool of luxury players in the near future, potentially making it difficult for newer brands to break into the luxury space, per JLL.

THE DEARTH OF available retail space will impact luxury expansion, JLL's Mr. Anokute concluded in the report.

"While retail fundamentals are favorable, this could negatively impact luxury retail expansion long term," he said.

"Deliveries of new retail space are at historic lows, complicated by rising construction costs and high interest rates, adding difficulty to raising the necessary capital to jumpstart new retail development.

"Malls could provide a potential answer to this dilemma, as many malls across the country have ample availability, with class A malls still showing 6 percent vacancy."