Domestic markets to be focus for luxury this year, but Europe tourist cities still key

By Sandra Halliday - 23 April 2022

Luxury retailers and brands are shifting their focus post-pandemic and are targeting high-spending shoppers in their domestic markets more than they used to.

That’s according to a new report on the sector from Savills, which said luxury brands will “focus new store activity in large domestic-driven markets in China, North America and the Middle East in 2022”. This continues a trend that was also noted in 2021.

That said, European destination markets are also moving up the agenda and remain crucial for luxury players.

Savills said: “In recent years, new store activity globally has tended to follow the Chinese luxury consumer into destination markets. However, with the pandemic restricting international travel, Bain & Company has recorded that 21% of the total luxury goods spend last year took place inside of China.”

Last year, China was responsible for 21% of global personal luxury goods spend, but it saw 55% of all new luxury store openings worldwide. Much of the activity was focused on Shanghai and the duty-free island of Hainan. It was also dominated by the top three luxury houses: LVMH, Kering and Richemont. They accounted for 41% of all new openings globally in 2021, up from 33% in 2019.

Nick Bradstreet, Director, Head of Retail, Savills Asia, said that “strong domestic sales in China and the swift economic rebound, has propelled a higher expansion rate among luxury retailers. Shanghai last year secured 16 new major retail projects and there are significant growth prospects for the country’s luxury retail market due to the lack of outbound travel fuelling luxury domestic spend as well as government emphasis on supporting domestic consumption.”
While China was the only market to increase its share of new openings last year, there’s also a reported bounce in new store activity in the Middle East, albeit its global share held at 3%.

Kenny Lam, Retail Advisory, Savills Middle East, said: “In Dubai, many luxury brands are represented by monobrand stores through local franchises and partners but with the recent change in government policies, we are seeing international brands come in directly looking to take back full control of their stores.” Again, like China, the activity was mainly targeting affluent local shoppers “and Cairo, Saudi Arabia and Bahrain all currently represent opportunities for luxury retailers”.

As for North America, its global share of new openings was down from 25% in 2019 to 14%. But the US is seeing something of a luxury boom at present and while tourism may have been hurt by the pandemic, domestic shoppers are increasingly important. The major destination cities in the region, such as New York and Los Angeles, continued to attract activity, but many new openings were seen in “cities relatively underserved yet still with relatively affluent populations, such as Dallas and Houston”.

And what about Europe? The continent has suffered a lot in the pandemic and the tourists that once powered sales at its major city stores have been thin on the ground for several years now. As a result, it has seen the most significant decline in new openings since 2019, with its global share of new store opening down from 35% to 14% in 2021.

Marie Hickey, Director, Savills Research, said that global international air passenger numbers are unlikely to return to pre-Covid levels until 2025, “however, we do expect to see a much faster recovery in Europe and in North America, which would stimulate a resurgence in requirements from luxury brands as we move into 2023”. And she added that it’s “already starting to materialise in some key European cities”.

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