Luxury labels snub Europe in favour of China for new store openings

By Marion Deslandes - 28 April 2022

The global pandemic has severely restricted international travel, causing Chinese luxury consumers to choose their own country as their preferred shopping destination, rather than make their purchases during holidays abroad. Last year, luxury labels fuelled this trend: in 2021, 55% of new store openings in the luxury sector took place on the Chinese market, according to a study by British real estate consultants Savills. It is worth noting that 21% of the world’s consumer expenditure in luxury goods was generated in China in 2021, according to consulting firm Bain & Co.

In 2021, 16 major luxury retail projects were developed in Shanghai alone. However, the renewed Covid-19 surge in the region since the start of the year might slow down this momentum: “[Store] openings will undoubtedly be far fewer in H1 2022, due to the pandemic’s renewed spread, the imposition of local lockdowns and the ban on travel within the country,” said Nick Bradstreet, head of retail at Savills Asia.

In the Middle East, as in China, store openings are soaring again, although the region accounts for only 3% of all new openings worldwide. “In Dubai, many luxury labels are present via monobrand stores owned by local franchisees and partners. After recent changes in government policy, international brands are now keen to establish a direct presence, seeking to regain full control of their stores,” said Kenny Lam, retail consultant at Savills Middle East.

Last year, store openings in the Middle East were concentrated in communities with large and relatively affluent populations. “In this sense, Cairo, Saudi Arabia and Bahrain are current opportunity areas for luxury retailers,” added Lam.
Retail growth in China and the Middle East comes at the European market's expense. Only 14% of all luxury store openings worldwide in 2021 were in Europe, compared to 35% of the total in 2019. Among the reasons, the decline in tourist expenditure caused by Covid-19, but also the fact that the European luxury market is more mature than its counterparts elsewhere.

“The number of international travellers is not expected to return to its pre-Covid level before 2025. However, we expect recovery to be much faster in Europe and North America, boosting consumer demand for luxury brands,” said Marie Hickey, head of research at Savills.

North America saw an increase in openings towards the end of 2021, suggesting there might be a new wave of retail projects in 2022, even though the region’s share of global openings dropped from 25% in 2019 to 14% in 2021. In the USA, while there was the usual high volume of activity in New York and Los Angeles, affluent second-tier cities like Dallas and Houston led the pack in terms of openings.

Finally, there is a trend towards greater concentration of the luxury groups currently broadening their retail footprint. Last year, 41% of all openings were made by the sector's three heavyweights, LVMH, Kering and Richemont (up from 33% in 2019). “Since these groups have increased their merger and acquisition activity over the last 12-18 months, this dominance is likely to increase further,” warned the study.

Savills is cautious about the outlook for the rest of 2022, indicating that fewer decisions to open stores are likely to be taken than in the first half of the year, owing to the impact of the recent Chinese lockdowns and rising inflation. “Combined with the geopolitical uncertainty generated by the terrible events in Ukraine, this might hamper investors in their acquisitions of new stores, although we think this will be a short-term issue, and the medium-term outlook remains positive,” concluded Hickey.

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