CHAPTER FIVE

WHAT WILL KEEP THE CASH TILLS RINGING?


Cartier
CHANEL
CHAUMET

London's prime retail sites are booming thanks to the strong performance of luxury brands and the rising numbers of wealthy visitors

THE BRIEFING

London has overtaken New York as the world's fashion capital.

The global market for luxury goods will have reached $500 billion by 2015.

Luxury sales have risen by 14% in London's West End.

Overseas visitors are driving growth in luxury retail, with their spending increasing by 19%.

The number of Chinese visitors to London is set to double by 2014.

In August 2011, US-based trend analysts Global Language Monitor made a significant announcement. According to its research, London had overtaken New York to become the fashion capital of the world.

For anyone with even a passing interest in the commercial fortunes of the capital, this should come as little surprise. While the rest of the country's retail sales are languishing in the doldrums, London's figures are decidedly robust, especially in luxury goods. Indeed, since 2007 the West End has seen a growth in luxury spending of 14%. This surge looks in no danger of stalling. Figures released in December 2011 by the New West End Company revealed that central London sales are set to rise by 3.5% in 2012, reaching a predicted total of £7.7 billion.

"The West End continues to buck the national trend on retail," confirms Mark Henderson, chairman of London Luxury Quarter, a representative body for 300 global luxury brands clustered around Bond Street, St James's, Jermyn Street, Savile Row and Mount Street. "The reason for this is three-fold. Firstly, luxury brands continue to do phenomenally well – recent results include Burberry's pre-tax profits for the year up 24%, while LVMH's have risen 15% on the first nine months. Secondly, the West End has become a more comfortable place to shop – there's slightly less footfall but an increase in average spend. Thirdly, overseas visitor numbers are back up by 9% in the first half of 2011."

Overseas tourism is a major driver of the West End's retail resurgence, with luxury spending by international travellers rising by 19%. Currently Saudi Arabians are the biggest spenders, parting with £1,974 per visit, but Chinese visitors are narrowing the gap with an average spend of £1,310 – and their visitor numbers are forecast to double by 2014.

Admittedly, part of the current tourist love affair with London's shops can be attributed to the weak pound. But as the world's economy tilts eastwards on its axis, the capital's role as a global shopping destination seems assured.

"London is the most important capital in Europe right now," says Peter Thomas of Savills Retail. "It has a huge attraction for overseas visitors. There has been a major influx of tourism, particularly from the Middle East, China and Russia. Luxury goods houses like Louis Vuitton, Chloé and Prada are the kind of aspirational labels these visitors like to spend their money on. Having all these brands sitting alongside each other within a compact area makes London even more attractive."

In a sense, Thomas argues, the groundwork had already been done in the West End over the past 10 or 20 years, establishing a kind of luxury retail village that anyone who counts themselves as a major player needs to have a stake in.

"The luxury brands usually have clear adjacency requirements," he explains. "Putting these brands in specific locations creates the critical mass needed to consolidate repeat business. It also gives a location an international profile – Bond Street being a prime example."

The luxury accessories group Mulberry relocated to a larger Bond Street site, creating a 42% sales uplift in the process. More than a third of sales are to tourists from outside the EU.

On the street

PETER THOMAS OF SAVILLS RETAIL REVEALS THE SECRETS OF BOND STREET'S SUCCESS

NEW ENTRANTS

New arrivals on Bond Street are willing to pay higher rents or premiums to secure properties. This was certainly the case with Missoni and Fendi, who have taken premises on the street.

SIZE MATTERS

Established brands are upsizing their premises. Mulberry and Chanel have both taken stores in Bond Street that will give them over 100% more trading space.

TAKING OWNERSHIP

Luxury groups are buying their own property or another on the street. Chanel purchased the DKNY building and Max Mara bought a shopping parade, including Bottega Veneta. LVMH recently completed on a £300 million portfolio, which included their own "Maison".

Words: Claer Barrett

SAVILLS

THE VILLAGE WESTFIELD LONDON

Kevin Mahoney of Savills Central London Markets

≥ The Village is a groundbreaking retail project. Part of the highly successful Westfield London centre, this spectacular shopping environment has been created to house the world's most prestigious brands. Designed by leading architects Michael Gabellini and Kimberley Sheppard, the three-level space is now fully let. The elegant interior has attracted names such as Burberry, Dior, Gucci, Louis Vuitton and Versace. It is the first time these global brands have rented space in a UK shopping centre, making this one of London's luxury destinations.

SHELF LIFE

The market for luxury goods in the UK outperforms every other retail sector and is set for strong future growth

66%

The UK luxury sector is set to grow by 66% in five years, from £6 billion at the end of 2010 to £9.1 billion in 2015.

BURBERRY

Burberry saw its pre-tax revenue rise to £1.27 billion in Q1 of 2012, up 24% on the same period last year. It is now the seventh largest luxury fashion house globally.

Tourism is increasingly important to the UK's luxury retail industry. Tourists account for just over one pound in every four spent on luxury goods in the UK.

Americans are the fastest growing group of luxury visitors to the UK, followed by the Chinese. The global luxury goods market will expand by 65% from 2010 to 2015, with most of this growth coming from emerging economies.

2%

From the marketing activity of leading brands, it is clear that confidence has returned. Only 7% discounted their prices in 2010, and just 2% in 2011.

Recovery in the luxury goods market continued in 2011. Retail expenditure on luxury products grew by 17.3% year-on-year.

Compiled by Laura Latham Sources: Ledbury Research, Datamonitor, Walpole

"We continue to invest in our UK stores and we're looking for bigger stores in the towns and cities we're already in," says Mulberry's retail director, Nick Roberts. "We would take bigger stores in London, if we could find them."

The combination of rising rents, limited supply and soaring demand looks set to secure the West End as the world's premiere retail property market.

"If you take Bond Street as an example, the shortage of suitable spaces in the right location has pushed up property values enormously," explains Thomas. "Investors are keen to establish a foothold in London and, with the benefit of internationally recognised covenants, premium prices are being commanded."

Add into the equation the overall predicted global growth in the luxury market and the picture looks even rosier for those investing in London. The retail research house Verdict forecasts that the global market for luxury goods will be worth $500 billion by 2015, a 57% increase on today's figure of $320 billion – making the British capital uniquely placed.

> "THE SHORTAGE OF SUITABLE SPACES AND LOCATIONS HAS PUSHED UP PROPERTY VALUES

It is vital therefore to maintain London's international standing as the world's leading luxury retail destination through top quality service. Harrods, for example, is bending over backwards to attract high-spending foreign customers. Earlier this year, the famous department store registered a 40% rise in sales to affluent Chinese tourists after it installed Chinese bank card terminals, with the average shopper spending £3,500 in a single store visit. This has convinced the managing director, Michael Ward, to invest further, employing 75 Mandarin-speaking sales assistants to assist coach parties of Chinese tourists, which are regularly received. He also notes that Chinese customers are moving rapidly "up the discernment curve".

"We are employing people to go on to Chinese social networking sites to get feedback," he says. But he thinks the UK government is not maximising its opportunities. "If the government could do one thing, in my view, it would be to reduce the red tape surrounding UK visas."

"The potential growth from China is huge," agrees Richard Brown, vice president of the shopping research group, Global Blue. "Sales from Chinese shoppers increased 64% between 2010 and 2011 but only 1.3% of the population travelled overseas in 2011."

One thing is clear – maintaining the West End's retail success story will demand constant innovation. "To continue the good work that has already been done we need to carry on investing in the hard infrastructure," says Mark Henderson. "Piccadilly, St James's and Oxford Street are all having improvements made to traffic and pedestrian ways. But we also need to invest in the soft infrastructure – pride in great service, good communication, celebrating the unique heritage of areas such as Savile Row and Burlington Arcade."

The most important battle, in Peter Thomas' view, has already been won. "London's recent retail success is down to a combination of factors," he argues. "But the principal reason people come to London to shop is that it's still seen as the place to go, the place to be. And unless we do something drastically wrong as a city, I can't see that changing." ❖

SAVILLS

LIBERTY
Savills acted for Sirosa Liberty in its acquisition of the freehold interest in this iconic Regent Street store.

ROLEX
The chic new Rolex store is part of the prestigious One Hyde Park development. Savills acted on the sale of this asset.

CARNABY STREET
Carnaby Street features a mix of designer brands and independent boutiques. Savills advise on lettings.

SAVILLS

REGENT STREET
Flagship stores are attracted by Regent Street's elegant buildings and central location.

TALKING SHOP

Kevin Mahoney of Savills Central London Markets believes retail offers great opportunities to the confident investor

Q. *Which sectors of London's retail market are now performing the best?*

A. Retailer demand is still extremely high in central London thanks to tourists filling the gaps that have been left by increasingly nervous UK consumers. There were several deals on Regent Street and Oxford Street in 2011 with competing international retailers continuing to pay premium prices for flagship stores. There are new transactions ongoing now.

Q. *Has the arrival of the Westfield shopping centres changed the strategies of the luxury brand market?*

A. Not in our experience. The luxury brands are present in the new Westfield Stratford, for example, and remain at Westfield London, but they still want prime central exposure. The only sector showing a lack of confidence is fashion. It dropped 2.1% in Q3 last year but

Kevin Mahoney of Savills

showed a slight recovery by the end of 2011, according to the Office of National Statistics. General UK sales rose in the second half of 2011, giving cause for optimism this year.

Q. *What do you predict for 2012?*

A. Despite the gloom, I believe there are good reasons to be positive. Inflation is beginning to fall and in Q1 2012 dropped to its lowest level for three years. The Bank of England expects this trend to continue over the next 12 months, despite the Eurozone storm, which will help to stimulate domestic consumer confidence. For some retailers, perhaps again especially those in the clothing sector, this year will be tough as banks continue to look at ways of reducing their loan books as historic borrowing arrangements expire. But one retailer's problem is another retailer's opportunity – in London's best locations a new retailer is always waiting in the wings.

Q. *What are the key opportunities for investors this year?*

A. Bank sales already show every sign of turning from a trickle into a river. There are many good quality high street shops where the business fundamentals remain strong but the banks may feel that they have to intervene in the next few months. This leaves investors with potentially huge opportunities. ❖