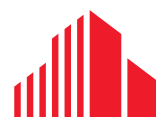


# THE LUXURY RETAIL MARKET

**/ FRANCE  
SPRING 2019**



**CUSHMAN &  
WAKEFIELD**



# THE LUXURY RETAIL MARKET

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Rue Saint-Honoré



Rue du Faubourg Saint-Honoré



Vendôme / Paix



# KEY FIGURES FOR 2019



**40**

Number of luxury store openings in France in 2018

**36 in 2017**

*93% of which were in Paris (82% in 2017)*

*Source : Cushman & Wakefield*

**48**



Number of luxury store signatures in France in 2018

**48 in 2017**

*(43 in Paris)*

*Source : Cushman & Wakefield*



**46%**

Estimated share of Chinese consumers in global personal luxury goods by 2025

**32% in 2017**

*29% of duty-free shopping spend in Europe*

*Sources : Bain & Company, Global Blue*

**260**

*billion €*

Global personal luxury goods market in 2018

**€254<sup>bn</sup> in 2017**

*Source : Bain & Company*



**16,5**

*million*

Hotel arrivals in Paris

Sept. 2018 (year on year)

**60% overseas visitors**

*Sources : Bain & Company, Global Blue*



3

## TOP FIVE MOST-ACTIVE HIGH STREETS IN 2018

3



Avenue Montaigne

4



Avenue des Champs-Élysées

5



# MEASURED GROWTH IN THE GLOBAL MARKET

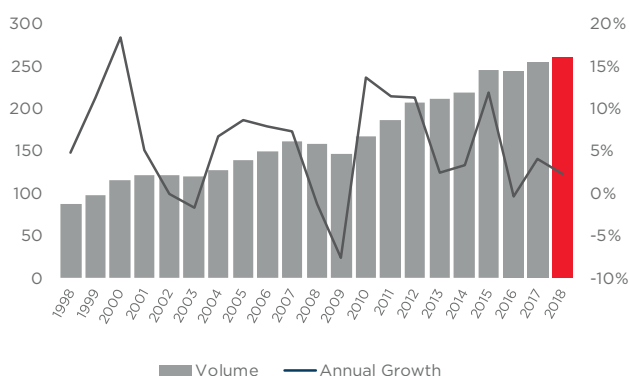
**In a climate of deep-rooted change in the French retail market, perpetuated by erratic consumption, the luxury sector offers guaranteed robustness. Tourists have been returning for the last 2 years, the level of openings and planned openings is increasing, as is the outlook for engagement over the short term: all the ingredients that feed the French luxury market are therefore in place for the coming months.**

4

On a global scale, the last 2 years (2017 and 2018) posted increases for the luxury goods market with €1,171 billion in 2018 (compared with €1,161 billion in 2017). The sector posted 1% growth compared with last year (+5% at a steady rate). This somewhat timid performance was affected by flagging levels of activity in the “yachts/private jets” (-8%) and hotel business (-1%) categories.

## CONSOMMATION D'ARTICLES DE LUXE DANS LE MONDE

€ MILLIARDS



\*Forecast

Source : Bain & Company

Conversely, the market was driven by activity in gastronomy (food, wines and spirits, +2% year-on-year) and personal luxury goods (+2%).

This growth contrasts with the stagnation seen in this segment in 2016 with a total turnover of €260 billion recorded by the end of 2018.

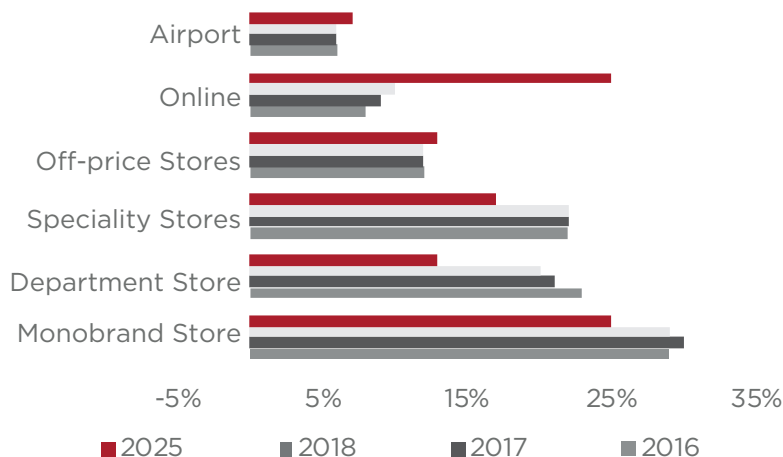
**Luxury goods market  
posted 1% growth  
compared with last year**

fashion and cosmetics. ALTAGAMMA is forecasting an increase in performance for luxury goods in 2019, and a more marked increase for leather goods (+7%) and cosmetics (+5%).



The European market accounted for a third of expenditure in 2018. However, this proportion is likely to decline over the medium term in favour of the domestic Chinese market (from 9% in 2018 to 22% in 2025) which should account for half of the global expenditure by its nationals.

#### GLOBAL CONSUMPTION OF PERSONAL LUXURY GOODS BY DISTRIBUTION CHANNEL, VOLUME, %



Source : Bain & Company

## FRENCH EXCELLENCE

France retained its leading position in the international luxury market according to DELOITTE, and accounted for around a quarter of sales in the personal goods market. Next in line were the United States, Italy and Switzerland, positioning Europe as a key market for high-quality products. The 2018 report places 3 French groups in the ranking of the 10 largest groups in the world that specialise in luxury goods with LVMH having retained the top spot for several years.

The group continued to see double-digit growth in sales (+10% in 2018) driven by fashion and leather goods (LOUIS VUITTON, CHRISTIAN DIOR, KENZO) as well as perfumes and cosmetics (+10%). KERING also saw substantial growth at +27% and stayed in 5th place in the global ranking due to activity by its brands GUCCI, BALENCIAGA and ALEXANDER MCQUEEN.

The other French groups should also follow this upward trend, although to a lesser extent (+6.8% over the first 9 months for L'ORÉAL LUXE, +3% for HERMÈS INTERNATIONAL).

#### THE 10 MAIN LUXURY GOODS GROUPS BY TURNOVER



Source : Deloitte



# PHYSICAL AND DIGITAL INCREASINGLY BLURRED

**With €26 billion spent online in 2018, the share of e-commerce in the luxury market continues to grow and has reached 10% of the overall expenditure on personal luxury goods.**

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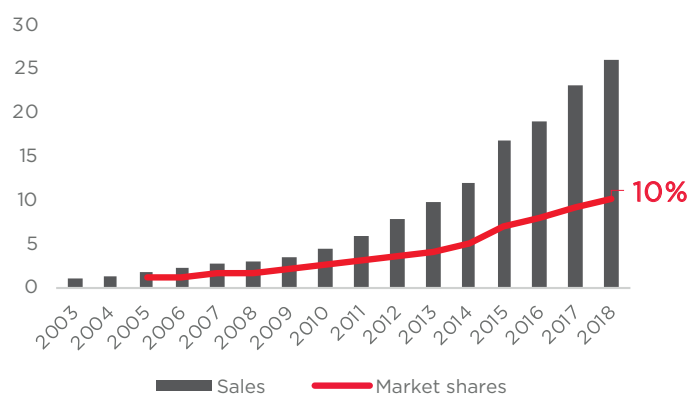
According to BAIN & COMPANY, at this rate, this proportion could rise to a quarter of the overall expenditure by 2025. As can be seen for other consumer goods, the internet plays a key role in the buying process, whether to inspire, to search and compare products and offerings, or to buy directly online. It is estimated almost 3/4 of luxury goods purchases are influenced in this way.

The change in the relationship with major brands has finally allowed digital to penetrate the luxury sector, although to a lesser extent than for other segments of the retail trade.

**Almost 3/4 of luxury goods purchases are influenced by digital.**

The sector has had to confront the reticence of some brands towards this new distribution channel for fear of devaluing both their image and their products. However, by wagering on exclusivity and singularisation, brands have finally managed to strengthen the bond between themselves and their consumers by reconciling their brand history, their environment and their product.

**CHANGE IN ONLINE SALES OF LUXURY GOODS,**  
€BN, %



Source : Bain & Company



## VISIBILITY FIRST

Social networks are the main players for promoting an emerging brand and, over time, have contributed to highlighting traditional retailers as well as new market arrivals, some of which have been 100% internet-based from launch. INSTAGRAM, TWITTER and FACEBOOK are the most popular networks.

By 2025, millennials and generation-Z consumers will account for over 40% of luxury goods sales, compared with 30% today

Groups also negotiate partnerships with online sales platforms by buying or acquiring a stake in online marketplaces (Yoox Net-A-Porter or Watchfinder for RICHMONT, Farfetch for CHANEL, Lyst for LVMH, etc.). These platforms also bring their experience in terms of logistics processes and distribution (deliveries/returns). Such deals are particularly popular in China where they can quickly establish a large community (Tik Tok, Little Red Book, etc.).

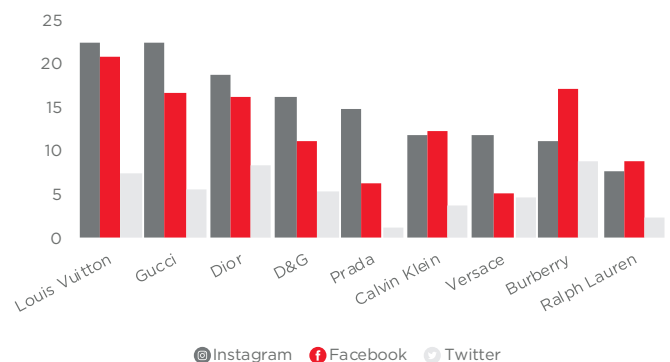
There is no lack of innovation in this booming market, such as the “drop” programmes launched on the WeChat messaging service that create a temporary online space fully dedicated to a launch of an event or a collection, as used by LOUIS VUITTON, BALENCIAGA and BURBERRY.

Born in the digital age, millennials are the main online target for luxury brands. According to an IFOP survey from November 2018, the younger generations mainly look for client experience. To create this, the means of product communication play a key role, ahead of even the product itself and the price.

By 2025, millennials and generation-Z consumers will account for over 40% of luxury goods sales, compared with 30% today.

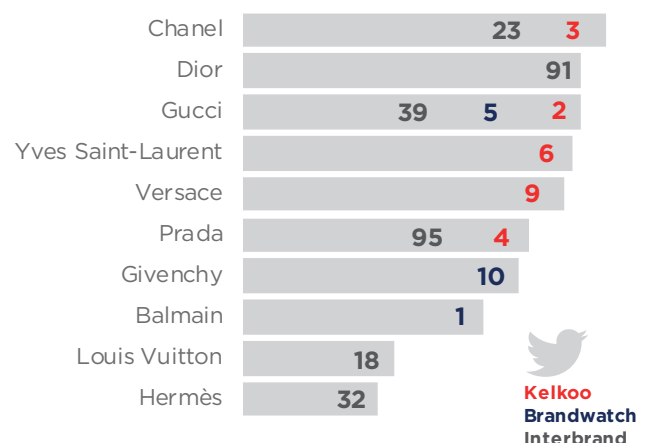


**LUXURY BRANDS FOLLOWERS ON SOCIAL NETWORK, MARCH 2018**  
MILLION



Source : Deloitte

**TOP 10 OF MOST ATTRACTIVE TWITTER ACCOUNT IN LUXURY WITH BRANDS RANKING**



  
**Kelkoo**  
**Brandwatch**  
**Interbrand**

Sources : Deloitte, enquêtes Brandwatch, Kelkoo, Interbrand



# TOURISM IN FRANCE

International tourist arrivals around the world rose by 6% over 2018 and the Greater Paris Region was one of the major beneficiaries with a 3.6% increase in hotel arrivals compared with 2017 (35 million, or 2.5% of global hotel arrivals), making 2018 a record year in terms of visitors.

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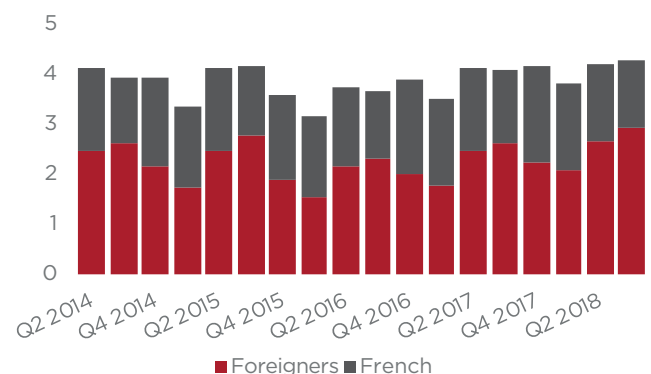
## A GOOD YEAR FOR TOURISM - UNTIL WHEN?

This increase in tourists to the Greater Paris Region coincided with a +3.8% rise in passenger numbers at Paris airports. The proportion of international travellers rose considerably (+8.7% in the Greater Paris Region and +12% in Paris in 2018) to over 50% in the Greater Paris Region and 60% in the capital. After American tourists (2.8 million arrivals), Chinese tourists came in 4th place with 1.2 million hotel arrivals in 2018.

The occupancy rate for hotel chains in Paris rose by 3.2% in 2018, in line with the regional average, and the RevPar was also positive for all hotel categories, particularly for luxury hotels and palaces (+11.2%).

Hotel arrivals in the Greater Paris region posted 3.6% increase compared with 2017

PARIS HOTEL ARRIVALS  
MILLION



Source : Paris Office du Tourisme et des Congrès

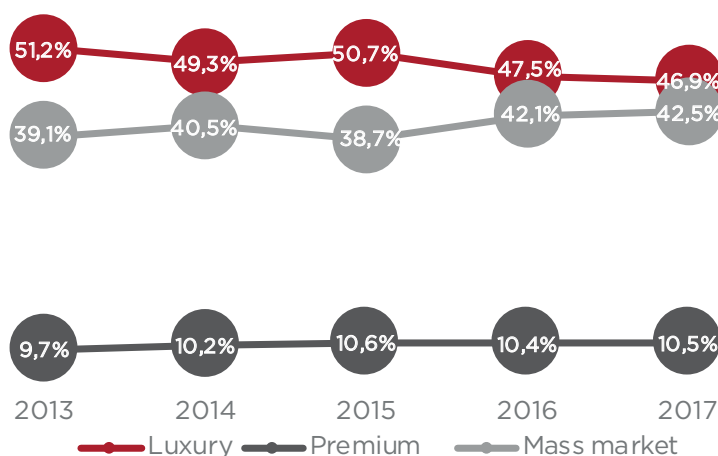




The impact of the protests seen towards the end of the year only had a limited effect on performance in 2018; this was largely due to the strong activity recorded over the first 11 months of the year. Depending on the duration of these disruptions, they may have a more substantial impact in 2019 (reduction in the Paris occupancy rates of up to -9.2% for some days in January 2019, -6% in air-travel reservations for February to April 2019, according to ADP).

## BREAKDOWN OF TAX FREE EXPENSES BY PRODUCT SEGMENT,

EN %



Sources : Global Blue, Altagamma

## EXPENDITURE CEILING

Tourism represents a genuine source of profit for the luxury industry. According to GLOBAL BLUE, duty-free sales in Europe rose by an average of 7% per year from 2011 to 2018. The first 9 months of the year showed some signs of a slowdown in the number of duty-free transactions in Europe (-8%), due to a less favourable exchange rate for tourists from outside of the Eurozone. However, this decrease was partially offset by an increase

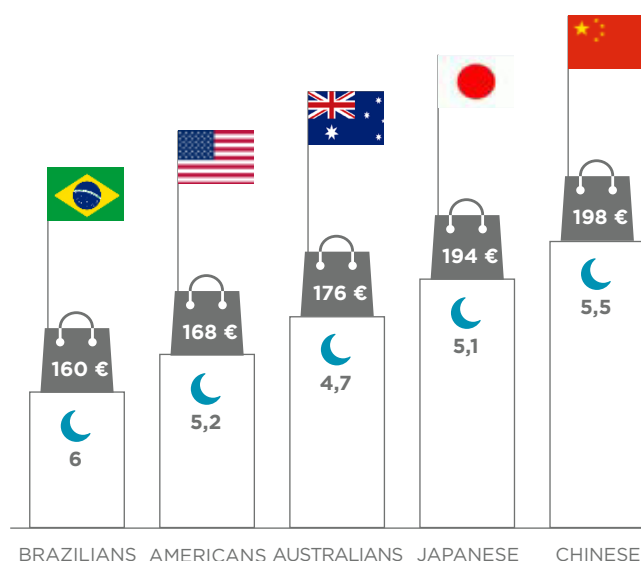
with a budget of almost €200 per day. They have also extended the length of their stay and are therefore contributing to maintaining the level of tourist consumption of luxury goods in Paris.

## DAILY TOURIST BUDGET IN PARIS (IN €) AND AVERAGE NIGHTS PER STAY

Chinese tourists remained the biggest spenders in the Capital with a budget of almost €200 per day

in the average transaction size (+2%). Purchases of mass-market duty-free goods have gradually overtaken luxury goods, the proportion of which has been falling in favour of the premium segment which remains relatively low.

In the Greater Paris Region and in Paris, the average budget for foreign tourists remained stable or fell slightly compared with 2017. Chinese tourists remained the biggest spenders in the capital



Sources : Comité Régional du Tourisme du Grand Paris, Repères 2017

# SUMMARY OF OPENINGS IN FRANCE

**Following a slowdown over 2017, the rate of luxury store openings regained pace over 2018 with 40 openings (37 of which in Paris), representing a 11% decrease compared with the previous year. For the first time since 2015, new creations were in the minority with extensions and existing store renovations taking the lead.**

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## VIRTUOUS CIRCLE

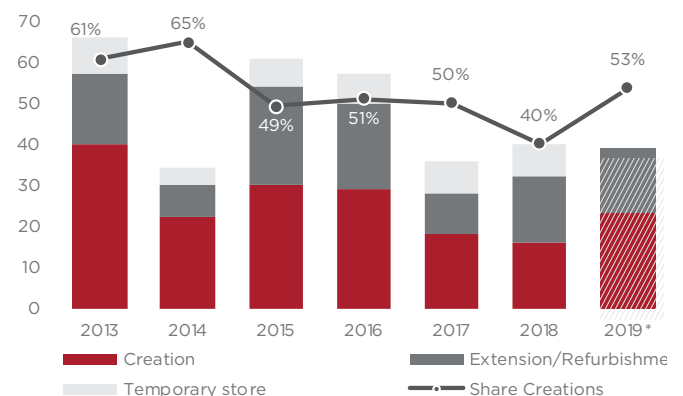
Rue Saint-Honoré remained as the country's most attractive high street, a position it has held for many years. It accounted for almost half of the openings and leases in the Paris market and clearly stands out in the national rankings with 13 openings in 2018, 7 of which were new creations, mainly for fashion, such as MOSCHINO, MARNI, HERNO. Given the high level of rental transactions recorded in recent years, Rue Saint-Honoré should retain the top spot in the luxury market for some time, even though it is becoming increasingly difficult to identify available flagship stores here.

As an extension of Rue Saint-Honoré, 7 openings were recorded on Rue du Faubourg Saint-Honoré. Even though most of this activity was moving towards the East on Rue Saint-Honoré, "Faubourg" is still one of the "safest" options in the Paris luxury market. This distortion does however affect the section of the road located near to the Elysée Palace which suffers from a lack of footfall and has seen a series of closures. This attractiveness could be revived, particularly by an adjustment in rental values, taking into account ongoing issues related to security restrictions.

Le Marais should retain its premium positioning despite several openings by luxury retailers in recent years, such as KENZO, GUCCI, CHANEL or GALLIANO.

These experiences, with mixed results depending on the brands and the positioning of the brands, have not changed significantly the premium nature of this district over time.

## CHANGES IN OPENINGS OF LUXURY STORES AND PERCENTAGE OF NEW STORES IN FRANCE



\*Estimate at March 2019

Source : Cushman & Wakefield

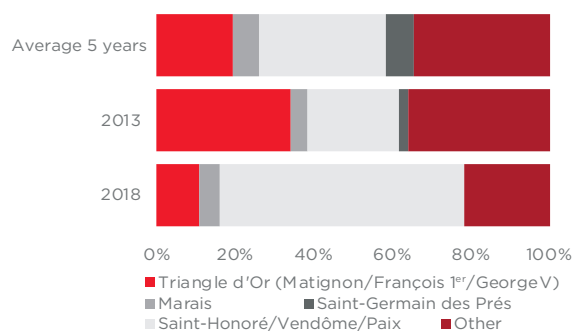


## In 2018, Rue Saint-Honoré accounted for almost half of the openings and leases in the Paris market

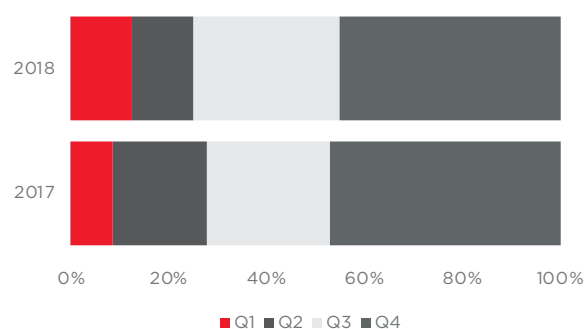
In addition, the opening of DFS on Ilot de LA SAMARITAINE in 2019 should create a new luxury “destination” in this central Paris district and provide an additional source of attractiveness for international tourists.

Still on the Right Bank, the Triangle d’Or has made a return to the most active high streets among luxury retailers, particularly the Avenue des Champs-Élysées with 2 openings in 2018 and 5 scheduled for 2019. The gradual arrival of these new “luxury” players is linked to the refurbishment and redevelopment of several historic buildings on the Avenue through to 2021.

### CHANGE IN OPENINGS BY DISTRICT



### CHANGE IN OPENINGS BY QUARTER



Source : Cushman & Wakefield

## TEMPORARY LUXURY

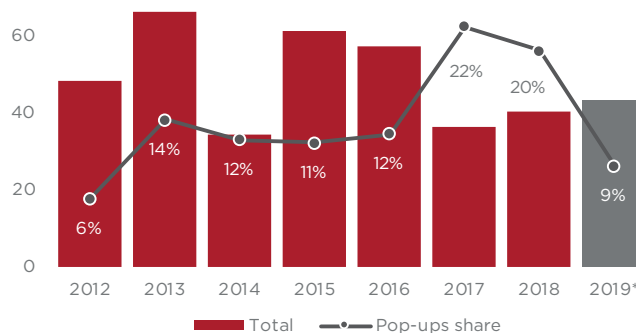
The contraction of product life cycles and customer aspirations have led to an increase in the deployment of pop-up stores, particularly in the luxury sector, where exclusivity and sensationalism form the core elements of attractiveness.

With over 20% of the openings recorded over the last 2 years, pop-ups have made a substantial contribution to recent changes and now play a full role in the luxury market, including traditional retailers (ROCHAS, DIOR, HERMÈS or CHANEL in Paris, Courchevel and Saint-Tropez).

In the capital, pop-up store openings have mainly been concentrated in the area between Madeleine/Saint-Honoré/Vendôme and, to a lesser extent in the Triangle d’Or (Montaigne/François 1<sup>er</sup>). As a reminder, this format only accounted for 6% of the openings recorded in 2012.

With over 20% of the openings recorded over the last 2 years, pop-ups (...) now play a full role in the luxury market

### LUXURY STORE OPENINGS AND THE SHARE OF POP-UPS



\* Forecast at March 2019

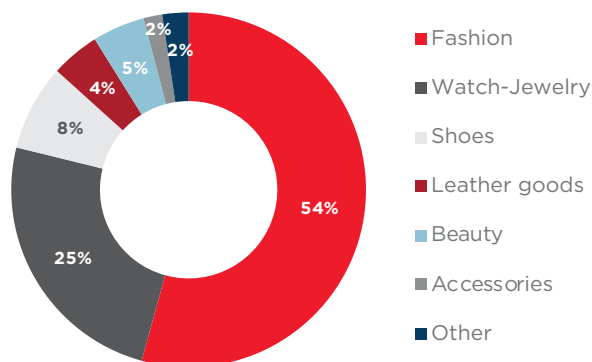
Source : Cushman & Wakefield

## FASHION LOSING GROUND

In line with the average for the last 5 years, activity in 2018 was mainly driven by the fashion sector (63% of openings). Watches and jewellery, although lower than in previous years, came in second place with 15% of the openings recorded in 2015.

Considering the openings planned for 2019, this sector should regain ground and return to the average seen for the last 5 years with 2 new stores in particular in the Saint-Germain district on the Left Bank (ARIJE and CHAUMET). The beauty and cosmetics sector saw an increase in openings (8%) and has represented an area of growth for several years. This sector's market share is set to grow with LANCOME and DIOR planning openings on the Avenue des Champs-Élysées.

### OPENINGS BY ACTIVITY OVER THE LAST 5 YEARS



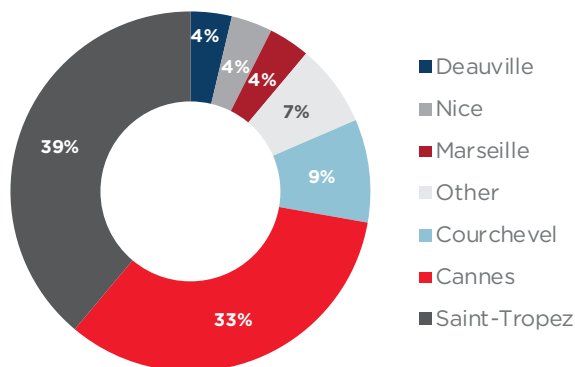
Source : Cushman & Wakefield

## REGIONAL MARKETS FAIRLY TIMID

Very few transactions were recorded in regional markets over 2018, with just 2 openings in Saint-Tropez on Rue François Sibilli (ZIMMERMANN and VERSACE). Over the months ahead, some further activity is in the pipeline for Lyon and Bordeaux as well as Cannes and Saint-Tropez. The “luxury” offering in regional cities is set to grow, although with no major change in current trends.

However, this could change in Cannes which has recently benefited from urban regeneration in Monaco (One Monte Carlo / Ex-Sporting d'Hiver, Hôtel de Paris). The completion of the One Monte Carlo project will develop attractiveness and require some retailers to reconsider their priorities in terms of development. Meanwhile, 2 openings are planned for the Boulevard de la Croisette in Cannes in 2019.

### OPENINGS IN THE REGIONAL MARKETS OVER THE LAST 5 YEARS



Source : Cushman & Wakefield

## RETAILERS KEEPING UP THE PACE

It is still too early to fully assess the number of signatures for 2019, but a trend is emerging in terms of openings with an early estimate of 43 for 2019 (95% in Paris), representing +7.5% growth. The last 2 years were particularly productive in terms of transactions, a significant proportion of which should result in openings in 2019 and 2020.

These scheduled openings are mainly located in the Saint-Honoré and Triangle d'Or areas of Paris. The latter has a capacity of large-format spaces

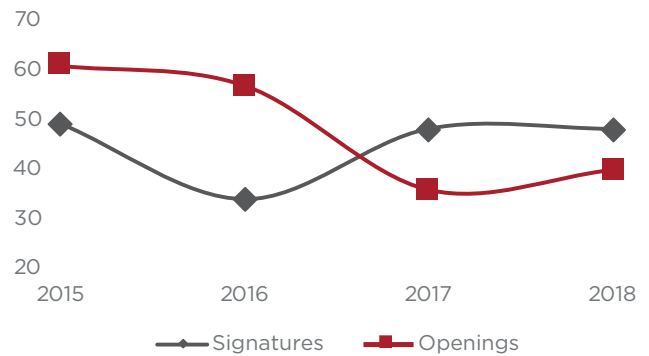


and therefore complements the offering of the highly sought-after high streets, such as Rue Saint-Honoré.

This phenomenon of air draught should therefore enable the area to capture a higher level of demand in the coming months. Pop-ups should remain a strong trend in 2019.

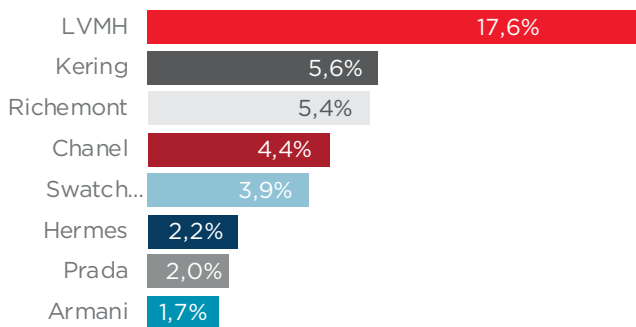
Due to the current lack of available space on the most sought-after high streets, this format will need to expand to alternative areas with availability.

## RELATIONSHIP BETWEEN SIGNATURES AND LUXURY STORE OPENINGS, BY NUMBER



Source : Cushman & Wakefield

## MOST ACTIVE GROUPS IN TERMS OF SIGNATURES BETWEEN 2014 AND 2019



Source : Cushman & Wakefield

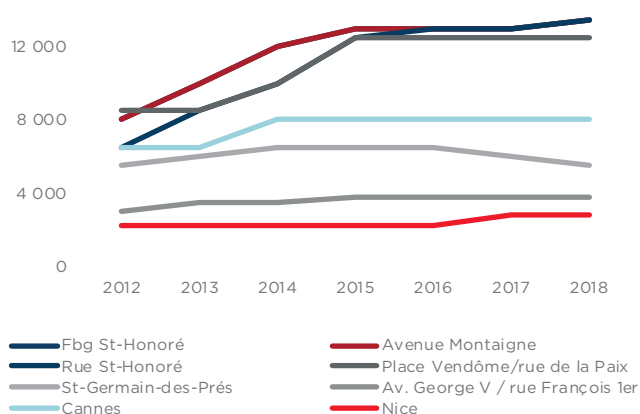
## BUTTERFLY EFFECT

The international development of luxury retailers requires substantial investment and some are working with investment funds to build their activity and reach a critical mass within the international market. We can therefore see that global conglomerates, particularly from Asia, America and Qatar, are penetrating the market.

They are taking positions in the sector by acquiring well-known houses, such as VALENTINO and BALMAIN by Qatari fund MAYHOOLA, LANVIN by Chinese fund FOSUN and CAPRI HOLDING (MICHAEL KORS) by acquiring VERSACE and JIMMY CHOO. LVMH, KERING and RICHEMONT have also shown their desire to increase their brand portfolios. These transactions carried out by investment funds should have an impact on real estate activity over the coming months (disposals and repositioning).

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## PRIME RENTAL VALUES FOR LUXURY STREETS , € / SQ. M ZONE A



Source : Cushman & Wakefield

## RENTAL VALUES

Average rental values should remain stable for the best locations over 2019. There could be some change for the rest of the market depending on the type of space as well as the launch of refurbishment programmes by landlords on some Parisian high streets (George V, François 1<sup>er</sup>, Champs-Élysées and Montaigne).

The increase in online sales and how this is interpreted should have an impact on the choice of the openings, or disposals for physical store locations.

# TRENDS FOR 2019

## *Main trends*

- 1 Openings set to rise over the short term
- 2 Ceiling on the number of transactions
- 3 The watch and jewellery sector will be more active than it has been for the last 3 years (12 openings planned)
- 4 Available supply of larger formats (>200 sq m of sales space) increasingly scarce on the currently most sought-after high streets
- 5 Strong comeback of the Triangle d'Or (Avenue des Champs-Élysées, Avenue Montaigne)
- 6 Strong "pop-up" activity that is spreading to alternative geographic locations
- 7 Stable rental values for the most-popular high streets

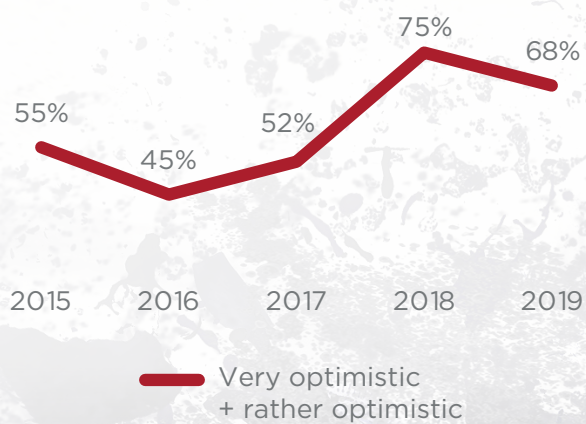
## *Things to watch*

- 1 Changes in tourism over the coming semesters, particularly from China
- 2 The impact of Brexit on the French luxury market



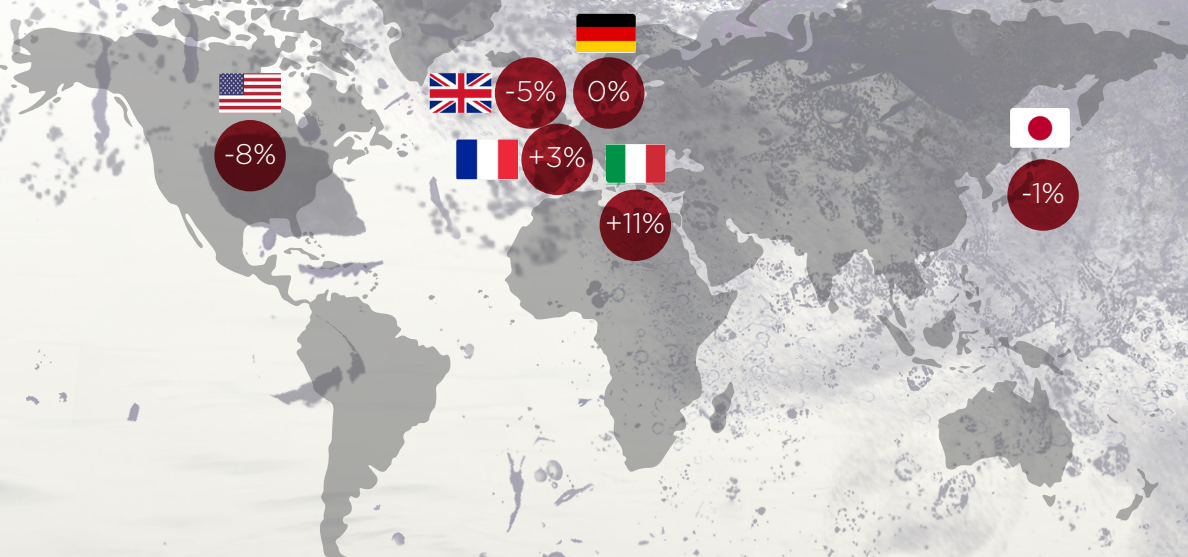
## BROADLY OPTIMISTIC OUTLOOK FOR THE LUXURY SECTOR IN 2019 ACCORDING TO LUXURY PROFESSIONALS

CHANGE IN OPINIONS “VERY OPTIMISTIC”  
AND “RATHER OPTIMISTIC”



Source : Sondage Ifop (November 2018)

## GROWTH OUTLOOK FOR STRATEGIC LUXURY MARKETS



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