

## **Plenty of Demand for Brick-and-Mortar Luxury Retail** **High-income consumers are spending in markets beyond NY and LA.**

By Paul Bergeron

Luxury retail shoppers and their typically higher household incomes are showing up in Sunbelt markets ready to spend and retail centers are taking notice.

No longer mostly consolidated in New York and Los Angeles, areas such as Phoenix, Austin, and Nashville are gaining in popularity, according to recent foot traffic data from Placer.ai blogger Bracha Arnold.

The luxury fashion market has been displaying resilience in the face of a challenging retail climate, Arnold writes, largely because high-income shoppers are still fairly insulated from inflationary concerns.

Luxury shopping malls did not exceed their 2021 visit levels in the first half of 2022, but they did outperform their non-luxury counterparts, rising 0.7% year-over-year (YoY) in September 2022 compared to regular indoor malls.

Thinking further out, Lululemon recently opened a store in Bozeman, Mont., where those moving to that town during the pandemic brought along higher salaries than what was typical in the town.

### **'We Anticipate Growth in This Sector'**

Margaret Caldwell, managing director and senior vice president at Northmarq, tells GlobeSt.com that luxury sales in US have remained strong, the dollar remains strong and wealthy consumers continue to buy luxury items, especially with the increase in social events such as parties and weddings.

"There will be a dichotomy of spending habits," Caldwell said. "While the US is experiencing significantly higher interest rates, inflation, and job layoffs, overall, our economy is stronger than most countries globally.

"The highest-income luxury shopper is forecasted to continue shopping for luxury items, and we anticipate growth in this sector. We expect non-luxury apparel and other soft goods to experience negative sales growth due to inflation, interest rates, and job losses. We will also see growth in discount shopping, vintage retailers, and clothing rentals. The lower income shopper will be focused on necessity spending."

Caldwell added that credit card debt has increased during 2022 in the US and the costs of carrying credit card balances in some cases are +/-25 percent.

"This will have a large negative impact on middle- to lower-income consumers buying luxury

items," she said.

### **Luxury Retail Driving Up Rents**

Virginia Maggiore, Principal at architecture firm RDC, tells GlobeSt.com that luxury retail is following the consumer to more diverse cities throughout the US, but in the process, is driving up rents and diminishing space available for other brands.

In cities outside of New York and Los Angeles, luxury brands are able to take larger spaces and pay more rent per square foot than was historically warranted in those areas. Just like homeowners moving into new areas and paying exorbitant amounts for houses, there is a similar issue happening in retail. Streets and centers taking on too many luxury brands too quickly may shut out brands that could add consumer diversity and perhaps more longevity to the area.

### **Much Desire for Luxury Goods**

Scott Grossfeld, Partner at Cox, Castle & Nicholson, tells GlobeSt.com that despite issues facing the general economy, there are still many wage earners at high levels who desire luxury goods.

"These consumers have large amounts of disposable income and are minimally impacted by inflation and economic downturns," he said.

"As a result, we are seeing growth in the luxury retailer segment. This growth appears to largely be occurring within high-profile, Class A and lifestyle projects. So long as the group of wealthy consumers continues to grow, we foresee the category of luxury retail continuing to increase in line."

### **Consumers Seeking Experiential, Curated In-Store Experiences**

Adam Rosenkranz, CIO at Christina, an LA-based real estate developer, manager, and sponsor providing accredited investors with the opportunity to own select investment properties in the ultra-prime neighborhoods of Los Angeles, tells GlobeSt.com that despite inflation, consumers are seeking experiential, curated in-store retail experiences.

"Oftentimes, these interactions allow for greater value by creating brand loyalty and retention, which is extraordinarily important in today's competitive landscape," he said.

"While e-commerce businesses have grown exponentially, many retailers would likely agree that it can often cause a disconnect between brands and consumers. We have seen the demand for in-person shopping firsthand.

"For decades, Christina has owned some of the most high-profile retail locations in Los Angeles, including Montana Avenue in Santa Monica, South Beverly Drive in Beverly Hills, and most recently, our Larchmont Mercantile project in Larchmont Village.

“We began leasing space in Larchmont amid the pandemic, and to date, we have leased all 14 storefronts with brick-and-mortar retail brands. The premier rents and demand are emblematic of the vibrancy of this retail environment, particularly on pedestrian-oriented walking streets. “

### **Migration During and After COVID Has Its Effect**

Edward Coury, managing director, RCS Real Estate Advisors, tells GlobeSt.com that the luxury retail market has seen movement in the US, as it returns to pre-COVID levels in major cities which struggled during the pandemic and the related loss of tourists and residents.

“As tourism resumes around the world, Europe is seeing growth in this area,” he said. “The U.S. luxury retail market is more nuanced. During the peak of COVID-19, Sunbelt states and cities such as Miami, saw an influx of new residents looking for warmer weather, larger spaces, and fewer COVID restrictions while their former hometowns in the North were in serious lockdowns. Part-time residents became full-time, and the traditional seasonality of the shopper evaporated.

“However, with the reopening of stores, restaurants, and schools, ‘flight’ cities like New York and Boston, which experienced a dramatic decrease in population, are now seeing residents return, along with new people moving in.

“This is driving retail growth in areas like Manhattan’s Upper East Side, Hudson Yards, and SoHo, which have resumed their place as shopping hubs for locals and visitors alike, while traditional cities like Miami are seeing a return to more traditional seasonality in consumption by the luxury goods shopper.”

### **How About a Glass of Champagne**

When designing for luxury retail space, Ryan McNulty, Principal, Architect, MBH Architects, tells GlobeSt.com that increased cross-pollination between retail and food & beverage can play an important role.

“It’s important to keep in mind the customer’s perspective,” McNulty said. “Customers, clients, and VIPs always have a thrill when given a free glass of champagne by a sales representative.”

Many retailers started to capitalize on this experience and MBH used it for the luxury watch store Bucherer Flagship on 57th Street, creating bars on every floor.

The concourse level leveraged an illuminated stone bar to encourage interaction with their customers to foster the watch enthusiast community and present their new, certified, pre-owned offerings to an engaged client base.

The main level bar served as a lobby bar that would welcome the client into the new boutique and provide the opportunity to meet, greet, and educate the clients on Bucherer, their history, and their import to the watch community.

The second-floor bar was an opportunity to brand a service to a provider, and the bar is a branded "IWC" bar within the Bucherer space.

"This creates an avenue for clients to circulate through the entire flagship to explore all the brands as they find their way to the IWC bar, where brands can hold curated events with their VIP clients," he said.

### **Simon Group Expands Luxury Options**

Vicki Hanor, Senior Executive Vice President & Managing Director, Luxury Leasing for Simon Property Group, said Simon's Copley Place is seeing incredible growth in its luxury division. In 2022 alone, it welcomed new luxury tenants including Alexander McQueen, Balenciaga, DIOR's expansion to include menswear, Thom Browne, Tag Heuer and Grand Seiko.