South China Morning Post
scmp.com

Ea$tern promi$e

Capitalising on the desire to flaunt new wealth, high-end brands are making big money in China, India and the Middle East while the rest of the world trembles in the face of an economic meltdown.

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Aug 24, 2008

It's teatime at Harrods in mid-summer. Dappled sunlight splashes impressionist shadows on the store's terracotta exterior. On the street that runs around London's iconic shopping palace the scene is less painterly - it looks more like a warm-up lap for a high-end Grand Prix as customised Ferraris, Lamborghinis, Jaguars and Bentleys jostle for position on the narrow thoroughfare, their Dubai number plates glinting.

Behind the wheels of these four-wheeled exclamations - I'm rich! Look at me! - sit young men, their faces bisected by expensive sunglasses. They are scanning the street with hungry eyes, checking out the throng of well-dressed women strolling past store windows or waiting for tables at Harrods' new pavement cafe, where tea is HK$160 a pot. As the women gaze back, dark eyes demur beneath beaded headscarves, it becomes apparent this is an elaborate social networking ritual for the super rich of the oil-soaked Arab world. There's barely an English accent to be heard.

Inside the shop, Arab culture is also a key factor, especially Arabic numerals, as in "12 of those please" or "I'll take 15" - and we are not talking about apples and pears from the store's food emporium. Here, in the midst of Harrods' summer sale, the multiple purchases are for luxury items with plenty of zeros in their prices, even after the seasonal discounts. English can be heard but, when it's spoken by natives, it's usually accompanied by a grumbling sound, the backing track for phrases such as "I can't afford that".

And that's the paradox: even as Britain shivers on the edge of an economic ice age, this is set to be the best year for the country's luxury-goods emporiums. It's the same story in the United States, where a housing-market Armageddon looks poised to swallow the nation's middle class. While some neighbourhoods in midwestern towns such as Minneapolis-St Paul have mortgage foreclosure rates that exceed 8 per cent, Chanel, Dolce & Gabbana and swanky shoe maker Sergio Rossi - which has a HK$220,000 pair of boots in its autumn collection - are opening enormous boutiques in Beverly Hills, home to the US movie industry's most wealthy and, more importantly, another shopping destination for the oil-rich, along with freshly minted millionaires from Guangzhou, Shanghai, and Beijing.

"The luxury-goods industry behaves in an unusual way all over the world," says Morgan Parker, president of Taubman Asia, the Hong Kong arm of the largest builder of luxury shopping malls in the

US. "It's absolutely counter-intuitive, the way luxury retailing outperforms when there's trouble in the world economy, but rich people always have money and when one rich person no longer has money there's always a new rich person replacing them."

In the case of Asia, and especially China, that's more like 10 new rich people for every rich person in the west who has seen their fortune incinerated by the mortgage market's firestorm. Along with the fivefold jump in oil prices, which has enriched the Gulf states and hundreds of Russian "oilygarchs" beyond their wildest dreams, the economic revolution that gripped the mainland a decade or two ago has helped make 2008 what *Forbes* magazine calls "the richest year ever", one in which every name on the Forbes 400 list of America's wealthiest people is a billionaire. The past year has seen the number of billionaires in the world grow by 19 per cent and that surge is expected to accelerate in Russia and China.

"The rich are going to get richer, and more importantly they are going to get more numerous," says Robert Frank, author of *Richistan: A Journey Through the American Wealth Boom and the Lives of the New Rich*. "Never before have so many Americans gotten so wealthy so quickly."

Although the US has faltered, the speed of wealth accumulation among Americans who have invested internationally has not. Fed by China and India, the global list of billionaires now exceeds 1,000 and their spending has become legendary.

With the mainland pumping money into the pockets of its wealthiest entrepreneurs, London-based research firm Datamonitor estimates the global luxury market (as defined by the sales of the top six luxury-goods conglomerates) will jump in size by 71 per cent to hit US$450 billion by 2012. In an apparent reversal of economic logic, luxury goods are increasingly seen as a more resilient commodity than staples such as steel and cars. Just as homes are being repossessed in every town in the US, it seems every mainland city is getting a gated housing estate, a luxury shopping mall and a strip of high-end stores sporting brand names that, three decades ago, were rarely seen outside Paris and New York.

"China will become the largest luxury market in the world by 2014," says Parker. "The mainland already represents 18 per cent of global luxury sales and that's forecast to reach 29 per cent over the next six years. Nowhere else in the world are people joining the luxury consumption class as rapidly as in China."

With its favourable tax regime and special relationship with the mainland, Hong Kong has been a major beneficiary of this boom, and its role in Asia's luxury binge will be enhanced when the MasterCard Luxury Week Hong Kong 2008 opens at the Four Seasons Hotel on Tuesday. Produced by IMG Fashion and sponsored by Taubman Asia, DHL and Miele, the event will feature a dozen international models, Chinese supermodel Emma Pei and catwalk shows by the likes of Donna Karan, Marc Jacobs, Oscar de la Renta, Kenzo, Jean Paul Gaultier, BCBGMAXAZRIA and Diane von Furstenberg.

Phenomena such as Hong Kong's Luxury Week and Harrods' new teatime rituals support the extraordinary thesis that the global luxury-goods industry is now poised for an unprecedented period of growth, on top of a decade in which growth has already been exceptional - and at a time when the economies of the "old" world, where luxury-goods manufacturers are based, are trembling with recessionary fear.

According to a recent survey of 627 affluent individuals commissioned by *Elite Traveler*, a magazine for private-jet owners, 80 per cent of super-rich consumers (those worth more than US$30 million) and 58 per cent of rich consumers (those worth between US$10 million and US$30 million) anticipate an increase in their luxury-goods spending this year. And it's not enough for these people to simply own a jet. Splashing out on interior decoration has never been more intense, with designers who kit out private planes reporting mind-boggling levels of spending. In October, Swiss aviation firm TAG will wheel out the first Airbus A319 corporate jet with an interior designed by Versace. The price tag is well over US$100 million.

The New York-based Luxury Institute, which maps the spending habits of the exceptionally well-heeled, has found orders for super yachts - those more than 130 feet in length - are up 18 per cent this year. There were 254 orders for super yachts last year, up from 134 in 2005. In 1997, there were 241 yachts of 80 feet or more under construction around the world. Last year, there were 916 such boats being built. A trend among the super rich is to buy two yachts, the second to transport luxury cars and other items that may be required once they arrive in port.

While banks and construction companies in the US and Britain are laying people off, the picture in many parts of Asia could not be more different. Hong Kong has seen a surge in the number of flagship stores. Louis Vuitton and Coach have both had multimillion-dollar openings this year, and Marc Jacobs and Zegna will soon follow suit. In Macau, Taubman Asia will announce on Wednesday that it has signed up more than a dozen premium brands for The Mall at Studio City, a US$200-million shopping complex on the Cotai Strip.

"It will be the most luxurious centre we have ever built," says Parker, and that's significant considering Taubman's dominance in its field.

On the mainland, luxury brands such as Louis Vuitton will be opening dozens of stores this year, including one in Urumqi, which previously has been noted mostly for its remoteness - no city on Earth is further from the sea.

"The luxury brands are simultaneously pumping up their product's status while pumping it out to the masses," says Paul Husband, co-author of *The Cult of the Luxury Brand - Inside Asia's Love Affair with Luxury*. "That's a powerful paradox but one that has transformed the luxury-goods industry."

Husband has just completed a study of Hong Kong consumers with incomes more than HK$30,000 per month, hardly the ranks of the super rich. Despite economic uncertainty, he found significant and growing penetration of luxury goods, especially among people aged 20 to 29.

Yves Carcelle, chief executive of Louis Vuitton, made the same point when he came to Hong Kong in March to open the company's atelier on Canton Road, Tsim Sha Tsui, its largest store after the Paris headquarters. "We make aspirational products," he said, strolling away from the Star Ferry on the short walk to the new store. "People can buy a simple wallet and that begins a lifetime of moving up the ladder of our product range."

Accordingly, the Canton Road store has a subtle class system. On the first level, near the entrance, are gathered many of the smaller, less expensive items. Move deeper inside and the pieces become more expensive, more exclusive. And for those at the top end of the luxury hierarchy, there are two exclusive VIP suites, where orders are placed for one-of-a-kind pieces that cost millions of dollars.

Robert Duffy, Marc Jacobs' business partner for the past two decades, sees the genius of Carcelle's approach. The day after the Louis Vuitton party - which he did not attend, even though Marc Jacobs International is an integral part of the LVMH group, which owns Louis Vuitton - he lay sprawled on a sofa in a penthouse at The Peninsula hotel. From his six-room suite he could look down on the construction site where soon Marc Jacobs' Tsim Sha Tsui store will stand. Hints of the recession embroiling the west were nowhere to be seen.

"[Mainland] China has changed so much since the first time I went there in 1985," he said. "It's unbelievable now, to see how much merchandise people are buying."

Duffy explained that business is now so good on the mainland that plans for a slew of new Marc Jacobs stores have been accelerated.

"We are flying new employees from the mainland to New York for three weeks' in-store training," he said. "The market in China is becoming more sophisticated and consumers are being more demanding."

Eleven years ago, Marc Jacobs had one store in a converted garage in Manhattan's SoHo, with annual sales of less than US$3 million. Today its annual revenues are close to US$500 million, delivered by a business model - similar to that of Louis Vuitton - that depends on drawing customers in when they are young and need something small to show they are moving up in the world then keeping them all the way to their first billion. A business model based on aspiration and status works especially well in Asia.

"Asia is almost entirely about new money," says Husband. "There hasn't been time for the money to sit in oak barrels and mature into fine old wealth. In today's China, luxury brands perform the necessary task of unmistakably marking you out as someone who has made it. You are no longer a faceless statistic; you are an individual with a success story."

Of course, there may be future catastrophes, such as war, famine and a collapse of the world's banking system, that will quench the seemingly unslakable thirst for luxury among the wealthy and those who aspire to join them, but until then, the cash registers will go on ringing. There are more than 100 cities with a population of 1 million or more people on the mainland. Even modest economic growth in second-tier towns, combined with the cultural power of luxury brands in Asia, will continue to deliver unprecedented sales.

At the Taubman Asia headquarters, in Central, the company has just completed a multimillion-dollar refit. Its offices shine with the latest technologies and a meeting space for the luxury-brand clients is laid out like the bridge of the Starship Enterprise, complete with liver-shaped couches and enormous video screens that seem to be showing footage from a luxurious galaxy many light years away. Except, according to Parker, that future is now.

"The luxury industry has become one of the most robust in the world," he says. "By focusing on luxury retailing we have been the top performing real estate investment trust on a one-, five- and 10-year basis. We have outperformed throughout economic cycles. Luxury goods are resilient to economic cycles because people will always aspire to have these goods."