Shining In The Gloom

The rest of the world may be feeling an economic pinch, but for the richest of the rich, the luxury spending spree goes on unfettered.

Stefan Theil | NEWSWEEK
May 17, 2008

At Christie's May 5 New York auction of impressionist and early modern art, the financial meltdown that's been gripping the globe for the better part of a year was nowhere in evidence. The world's wealthy snapped up Monets, Rodins and Giacomettis at record-setting prices. American buyers were in the minority, as a swarm of Europeans flew in to take advantage of the tumbling dollar. Christie's CEO Edward Dolman says wealthy Russians accounted for another big chunk of the $277 million take—the house's third highest ever for modernist art. Billionaire collector Nicolas Berggruen, the French founder of Berggruen Holdings, says his bids were outgunned each time, with some of the better-known works—including Rodin's "Eve"—fetching two or three times Christie's pre-auction estimates. "I've been waiting for prices to come down ever since the financial crisis started, but it's not happening," he says. "It's bizarre. Logically it should all come falling down, but it isn't."

What recession? Fresh numbers last week showed another deepening of the real-estate slump hitting middle-class Americans, and one industry after another has faced consumer belt-tightening and soaring energy costs. But there's one segment of the population—and the economy—that seems to be above such pedestrian concerns: the superwealthy, and the businesses that serve them. Consider the latest news from the world's top luxury brands: Bottega Veneta, the Italian purveyor of $1,350 wedge-heel sandals and $18,400 leather tote bags, just reported first-quarter global sales up an impressive 31.5 percent. That's on top of a 49 percent surge in 2007. In April, Prada reported its best results ever, with profits up 66 percent for the 12 months ending Jan. 31. Last week Hermès cheered markets with a first-quarter sales rise of 13 percent—including a surprising 23 percent jump in the United States, thanks in part to its posh new Manhattan flagship store, right across from the New York Stock Exchange.

Indeed, top-end luxury consumers seem almost invigorated by the rest of the world's economic woes. According to a February survey by Prince & Associates, while average consumers said they planned to cut back on shopping, 80 percent of the richest Americans—those worth $10 million or more—actually planned to increase their luxury spending. Meredyth Smith, senior vice president of Sotheby's International Realty, says the market for big properties in New York City—featuring, say, an indoor gym and staff quarters—is still "extremely strong." In addition to real estate, top luxury consumers are also investing in such amenities as bespoke perfume, superyachts, art and authentic travel experiences, as the ensuing stories in this SPECIAL REPORT reveal.
The luxury market owes its resilience largely to the fact that it is less dependent than ever on American buyers who might have been hit by the slowdown. So many new fortunes have been created across the globe in recent years that there seems to be an endless train of moneyed Muscovites and Brazilians ready to scoop up fine art, London townhouses and $3,500 bottles of Krug Clos d'Ambonnay champagne. In the past year alone, the number of billionaires worldwide has jumped by 20 percent, to 1,125, according to Forbes's annual list of the world's filthy rich; in 2003, there were just 476. And now more of them live in Moscow (74) than in New York City (71). "The new money being created in Russia and the Middle East is so overwhelming, it will displace people spending American dollars for art and real estate," Berggruen says. Last year, for the first time, the number of people worldwide with financial assets worth $1 million soared past 10 million, according to Merrill Lynch. Barclays' just-released Wealth Report confirms a "seismic shift in the location of wealth around the world." Regarding the spending power of the wealthy, says the report, "the term 'emerging markets' will be redundant in just 10 years' time."

While the superaffluent will always have money to spend, it's the middle class and the "nearly rich"—those with a net worth between $1 million and $5 million—who are both feeling the crunch and making some luxury brands nervous. Tiffany's $1,000 to $5,000 range is not selling like it used to, though high-end buyers are still splurging. "People who would maybe spend $2,000 on a piece of jewelry may now only spend $900 instead," says Marc Cohen, director of Ledbury Research, which specializes in luxury brands. Leather maker Coach was also disappointed with its latest results; its move down-market into shopping malls and outlet centers was a tremendous success when the economy was up, but now mall and outlet traffic is down sharply.

Still, the bloodbath may be looming. The banks at the epicenter of the financial crisis are only now starting to slash staff as they downsize following their massive subprime-related write-offs. Not until May 6 did Europe's worst-hit commercial bank, Switzerland's UBS, send out the first of 5,500 pink slips; many other banks in Europe and America will soon follow. "The wave of layoffs is going to be massive and hit all the banks at once," says an executive at another major Swiss bank who spoke on background. Bankers drive real estate in places like Zurich and London, buy fancy cars and love their Patek Phillipes. As much as it's stood like a rock in the financial storm so far, the luxury world might start to wobble yet. But until it does, there will still be buyers scrambling for Rodins.