



Consumers are buying up everything from diamond-encrusted handbags and private jets to souped-up trash cans and designer toilets. How long will the boom last?

By Kate Betts

MICHAEL KORS IS A PRO at selling expensive clothes to very rich women. At personal appearances in department stores, he has been known to move \$85,000 worth of merchandise in just one hour. But this year has been different. This year Kors says his wealthy clientele is out of control—they're spending like it's 1999. One New Yorker ordered two pairs of gold-beaded pants for \$8,900 each. At a trunk show in Short Hills, N.J., Kors sold five purple mink ponchos for \$7,825 each. Like many purveyors of luxury goods, Kors has seen his business increase 40% in the past year. And that's not because he's selling a lot of T shirts and jeans. "Even younger people are buying more luxury items," he says. "Teenagers are buying our shoes and bags."

Despite rising interest rates, staggering energy prices (gasoline has climbed 30% in the U.S. in the past year) and the general state of unrest in the world, conspicuous consumption is back. According to a study by the Italian association Altagamma, U.S. sales of high-end goods grew 27.7% in the first five months of this year, and consumer confidence is way up, hitting a two-year high in July.

"Luxury is so prevalent now," says Carol Brodie, spokeswoman for jewelry company Harry Winston. "You see so much heavy-duty cashmere and fur in the stores. It hasn't been like this since the 1980s." Indeed, the fall collections are among the most extravagant in

LUXURY FEVER



NOT JUST BROWSING
Sharon Osbourne
shops for a calfskin
wallet at Hermès
in New York City

BRING ON THE BLING

It's now possible to trade up in just about every category. A look at some of the new and improved goodies



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- 1 Asprey alligator handbag from the 167 collection, \$10,200; waiting list only
- 2 2005 Maybach 62 car, \$367,000
- 3 Swarovski-bejeweled Treo 600, \$929, by custom order
- 4 30-liter Butterfly step can by simplehuman, \$139.99
- 5 Marquis Jet Card, 25 hours of private air travel, starting at \$109,900
- 6 Patek Philippe Twenty-4 watch in white gold and diamonds, \$89,750
- 7 Gold-beaded and embroidered tulle slip dress, \$8,000, and Chinese raccoon-and-feather vest, \$2,695, both by Michael Kors



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MARQUISJET
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IN T WATERS
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ING BUSINESS JET

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recent history, with fur trim and crystal beading showing up on every tweed coat and charmeuse evening dress. Thanks to the weak dollar against the euro, prices for these clothes are up a whopping 20%, but so are sales. Houses like Hermès, Louis Vuitton, Christian Dior and Gucci have all reported double-digit increases in the second quarter.

"The winds are definitely back in the luxury business," says John Idol, CEO of Michael Kors LLC. "Department stores are doing well again because they are trading up. They know they can't compete with Kohl's and Target." Stores like Neiman Marcus—famous for selling everything from \$20 million submarines to \$400,000 his-and-hers robots in its over-the-top Christmas catalog—are leveraging the luxury sector by appealing to that 1% of the U.S. that controls more than 30% of the country's wealth. Apparently it's working. According to Neiman Marcus president and CEO Karen Katz, the luxury-goods retailer has sold more alligator shoes this year than in the past three years combined.

It's a pretty stark contrast to a year ago when luxury players were desperately searching for signs of recovery after months of falling stock markets and lackluster consumer confidence brought on by the Sept. 11 attacks. "What's happened is there is a necessity for a feel-good factor for luxury," says Dana Telsey, luxury-goods analyst for Bear Stearns. "With the improvement in the environment, especially after SARS and the war in Iraq, the demand for better products is expanding to all different levels—from the superpremium, like private jets and resort residences, to the accessible Coach."

Awareness of the luxury market has also played a part in the growth. "There is definitely a thirst for higher-end brands because consumers know what quality is, and that's because retailers have taught them how to recognize it," says Telsey. "Now it's about lifestyle—the aesthetic look of the store, the advertising. Everyone wants to be able to live the dream."

That dream extends far beyond fashion. Technology is increasingly one of the places where luxury spenders splurge, from mobile phones to giant flat-screen televisions. Mobile-phone makers are introducing luxury models, such as the \$19,450 platinum Vertu, in order to increase sales. And in Japan, because of the change to digital signals there, sales of big-screen LCD TVs have jumped 62%, prompting companies like Sharp to release the \$9,000 45-in. LCD Aquos.

According to a recent American Express Platinum Luxury survey, 59% of affluent Americans (those with incomes of \$100,000 or higher) would rather spend on experiential

HOT LIST

LUXE

DELUXE



• **DB Bistro Moderne's Burger Royale with black truffles, \$50, in New York City**

• **T. Anthony canvas luggage, \$290-\$4,500**

• **Cuisinart Flavor Duo ice cream maker, \$79.95**

• **Prada boutique in New York City's SoHo, designed by Rem Koolhaas**

• **Maclaren Techno XT stroller, \$289.99**

• **Hermès Birkin handbag in crocodile, \$17,100**

• **Ron Perelman's private screening room**

• **Margherita Missoni**

• **BlackBerry 7230 wireless handheld, \$449.99**

• **Parrot Cay resort in Turks and Caicos, \$380-\$4,800 a night**

• **Crème de la Mer, \$110 for 1 oz.**

• **Cartier Louis Cartier gold-and-diamond Exceptional pen, \$110,000**

• **Donald Trump's Boeing 737**

• **Brabantia Obelisk ironing board, \$139.99-\$159.99**

• **Panasonic TH-50PX25U/P 50-in. plasma HDTV, \$7,999.95**

• **Ferrari Enzo, \$652,830**

• **Zillion-Dollar Frittata with caviar, \$1,000, at Norma's, in New York's Le Parker Meridien Hotel**

• **Valextra luggage, \$2,700-\$6,900**

• **Carpigiani LB100 B batch freezer, \$8,600**

• **Bottega Veneta store on New York's Fifth Avenue, designed by Bill Sofield and Tomas Maier**

• **Bugaboo Frog, \$729**

• **Hermès crocodile Birkin with gold clasp and diamond-studded padlock, \$81,000**

• **Jerry Seinfeld's private baseball diamond**

• **Allegra Versace**

• **Motorola MPx (not yet on the market)**

• **Skorpios, Athina Roussel's 2,965-acre Greek island (asking price: \$360 million)**

• **Lab 21's DNA Face Cream, \$250 for 1.7 oz.**

• **Mont Blanc Bohème Royale pen, \$150,000**

• **Paul Allen's SpaceShipOne, which can travel beyond Earth's atmosphere**

• **LauraStar Magic Evolution ironing system, \$999**

• **Runco PL-61cx plasma 61-in. TV, \$25,995**

• **Bugatti EB 16.4 Veyron, \$1,235,903**



luxuries—restaurants, travel and entertainment—than on gadgets and goods. Pam Danziger, president of Unity Marketing, which conducted the survey, says the rise in experiential luxury is directly proportional to the wealth of the baby-boomer generation, which will be profoundly influential on the economy through 2010.

Instead of crocodile handbags, boomers are buying time-shares in expensive resorts, building media rooms in their homes and investing in elaborate renovations. They're also buying mega-yachts and accessing private air travel. The sale of mega-yachts—boats 80 ft. and longer—has more than doubled in the last decade. Demand is so high that even if you wanted to shell out \$50 million for a yacht, you might have to wait: most of the best-known boatyards are booked through next year and into 2006. Marquis Jet, a company that en-

“People are saying, ‘I’ve worked hard, I’ve done well, and I am going to indulge myself.’”

—Bill Allard, CEO, Marquis Jet

ables customers to buy access to 25 hours of private air travel for \$109,900 and up, increased its revenues approximately 300%.

Who is buying this stuff? Of course, there are the obvious big spenders who turn up in the tabloids: Anna Anisimova, the 19-year-old Russian heiress who rented a Hamptons home for the summer for a reported \$500,000. Or the Indian-born billionaire Lakshmi Mittal, who reportedly spent \$60 million on his daughter's wedding in June. At Harry Winston, Brodie says the current trend is for customers to “trade up” their engagement rings, swapping \$45,000 2-carat brilliant-cut diamond rings for \$165,000 5-carat emerald-cut diamonds.

But it's not just the superrich who are spending like drunken sailors. According to Marquis Jet CEO Bill Allard, his clientele extends beyond athletes and entertainers. “We have people in their 20s up into their 80s. We have people who haven't necessarily built up their nest eggs, and then we've got billionaires,” he says. “When you look at the growth in luxury brands, first you have to look at the economy, and obviously it has really revived over the last year. But there is a premium in terms of quality of life. People are saying ‘I've worked hard, I've done well, and I am going to

indulge myself.' In the past there might have been a sense of putting it off and putting it off."

For those who cannot afford the stratospheric prices of designer clothes, mega-yachts and private planes, there's a new luxury movement afoot within companies like Coach, BMW and Williams-Sonoma. They are all creating luxury products with price points that appeal to the growing market of middle-class consumers who also want to trade up without paying the "old" luxury price. This market—known as new luxury—is composed of the 48 million U.S. households that make between \$50,000 and \$150,000, and it's growing at a rate of 10% to 15% a year, according to Michael Silverstein, senior vice president of the Boston Consulting Group and co-author of *Trading Up: The New American Luxury*.

"The middle class in America has never had so much disposable income," says Silverstein. "If you got inside this middle-class household, you would find that they feel pretty well off. They're putting in new kitchens, putting in new windows, they have home theaters." Indeed, despite issues like growing debt and unemployment, the real per capita income in America increased nearly 100% between 1970 and 2003, a phenomenon that Silverstein attributes to women having entered the work force.

Silverstein uses the example of the automotive industry to illustrate the trading-up phenomenon. Instead of buying a Porsche 911 for \$175,000, a middle-class male who wants to buy a new car and make a statement might go to BMW and buy its 3 Series convertible for less than \$50,000. It's cheaper than the Porsche, but it's more than, say, a Toyota.

The question is: How long can the luxury boom last? According to a recent study by the Conference Board, the 78 million U.S. baby boomers will continue to drive the rising tide of affluence. By 2010, the combined spending power of older boomers ages 55 to 64 will nearly double, from \$455 billion today to more than \$750 billion. Although Bear Stearns' Telsey warns that there is no such thing as thoroughly recession-proof, she sees the luxury market continuing to grow for two to three years, as long as the stock market does well and the feel-good factor is in place.

History has proved that the behavior of high-end businesses eventually trickles down to the mass market. And if that's true, then the new luxury market is where much of the growth will be. Says Silverstein: "We're convinced that this market will grow from \$440 billion to a trillion by 2010 and that it's recession-proof. Consumers tell us that when times are bad, it's more important to have two or three luxury goods." —WITH REPORTING BY KATE NOVACK/
NEW YORK AND MICHIKO TOYAMA/TOKYO