

RESEARCH



DUBAI RETAIL OVERVIEW

Q1 2017

EVOLUTION OF DUBAI'S RETAIL MARKET GAINS MOMENTUM



The retail market faced continuing headwinds in Q1 2017, as the strong Dirham continued to dent retail sales. This in turn exerted pressure on retailers' ability to meet the high rental rates imposed. Consequently, a number of landlords have introduced flexible lease terms including longer rent-free periods in order to retain their key occupiers.

- Consumer confidence in the UAE remained volatile in 2016. Shoppers were less optimistic about their disposable income, according to The Nielsen Global Survey of Consumer Confidence and Spending Intentions 2016 (*Figure 4*).
- Despite this, well-established malls with higher footfall continue to maintain healthy occupancy rates. This indicates continued demand by retailers for units in prime locations. However the delivery of additional retail supply is expected to put pressure on overall occupancy rates.
- Meanwhile, the performance of smaller community and neighbourhood centres remained flat, with marginal growth witnessed in select locations. These centres cater to the local resident population and are therefore able to ensure continuous revenue streams.
- To ensure their permanence amid uncertainty and weaker sentiment, both mall operators and retailers are having to diversify their product offerings and introduce new technologies as a means of reaching out to customers, with e-commerce being on the forefront of this evolution.
- This trend manifested itself in November 2016 when Mohammed Alabbar, Chairman of Emaar Properties, announced plans to launch Noon.com, an online retailer the size of Amazon. Similarly, luxury retailer Al Tayer launched its first online retail business called Ounass, serving the UAE, Saudi Arabia and Qatar.



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MATTHEW DADD
Partner

CURRENT MARKET TRENDS

Modest growth in sales

- The general macroeconomic conditions which resulted in the slowdown in retail sales growth in 2016, are still largely in place. Therefore will continue to contribute to a challenging environment for retailers. Once used to double-digit growth (c.10%-15%), UAE retailers are now seeing modest single-digit growth in sales.

'Super Sale' (May 18-20), is part of the Dubai Festivals and Retail Establishment's (DFRE) robust scheme to further boost Dubai's retail sector. Boosting sales, particularly ahead of Ramadan and the quieter summer months, is expected to further enhance and build on the emirate's strong position as a central shopping hub.

Signs of saturation

- Dubai's retail sector is expected to see an additional 900,000 sq m of space getting delivered over the next couple of years, either through new shopping centres or expansions to already existing ones. This comes as developers use retail as an anchor for their mixed-use developments.
- Super regional malls such as The Dubai Mall and Mall of the Emirates remain the top choice for existing and new brands to operate in. Meanwhile community and neighbourhood centres have gathered pace in recent years, as they add value to the residents and ensure continuous revenue streams for retailers and mall operators.

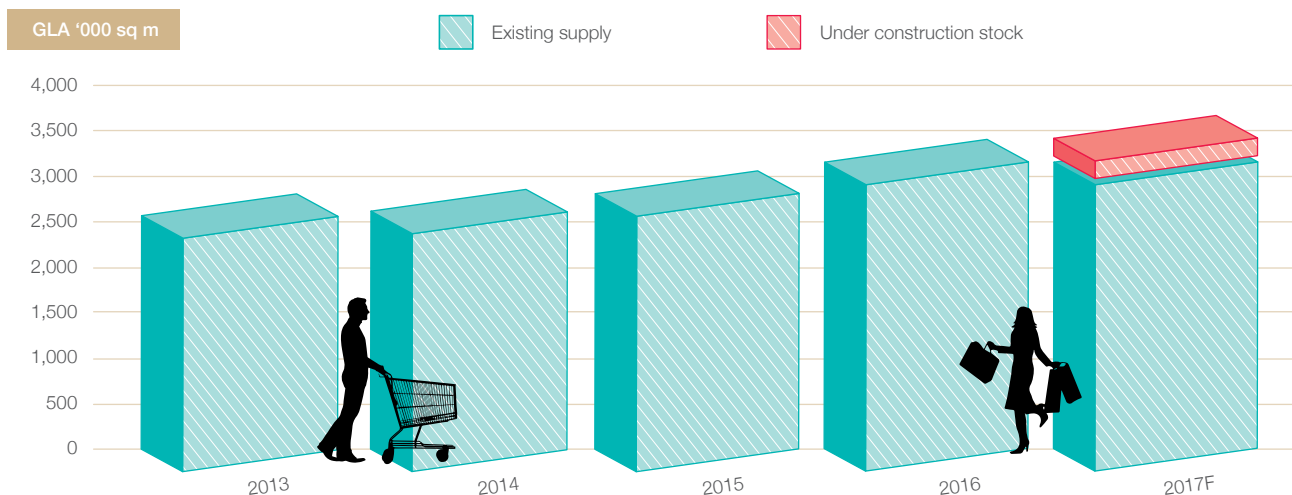
Electronics remain Dubai's retail strong spot

- According to a study by Dubai Chamber and Euromonitor International, Dubai has emerged as a profitable consumer electronics market with a value of USD 2.5 billion in 2015. This is expected to grow 4.7% to reach USD 3 billion by 2020. The electronics market is supported by Dubai's position as a regional hub for trade flows and re-exporter of devices in the region.
- This segment of the retail market is also supported by the UAE's young and tech-savvy population, that is continuously upgrading smartphones and tablets. The emirates' improving and expanding technological connectivity, growing popularity of social media platforms, and increased investment in Dubai's image as a leading Smart City, are expected to encourage more consumers to buy electronic devices.

Retail strategies: Sales, promotions and value products

- Weaker market conditions coupled with a strong supply pipeline are driving retailers and mall operators to offer promotions and price reductions to entice customers and maintain strong footfall. Strategies such as the three-day

FIGURE 1
Dubai retail supply



Source: Knight Frank Research

FUTURE MARKET TRENDS

Product diversification

- The emirate's saturated retail market is forcing developers to differentiate their mall and retail offerings in order to stand out from the crowd. Outdoor, urban-lifestyle shopping grounds such as Box Park, Citywalk and the Dubai Design District (D3) are becoming the new norm in Dubai. Similarly, driving footfall and outperforming some existing brands, by providing a unique retail concept is Marka's Paris 68, a homegrown retail concept stocking collections created by local designers, high-street names and students.

Online disruption

- E-commerce in the region still lags behind mature markets. However already traditional retailers are facing competition from e-commerce leaders such as Amazon; a trend likely to continue and expand in the future. With plans to introduce Noon.com to the market and the sale of Souq.com to Amazon, we expect product availability in online channels within the region to increase dramatically.
- Based on research and estimates by Chalhoub Group, e-commerce sales are expected to account for USD 1.5 billion of the Gulf's high-end luxury segment within the next four years. With a large population under 30, high levels of internet

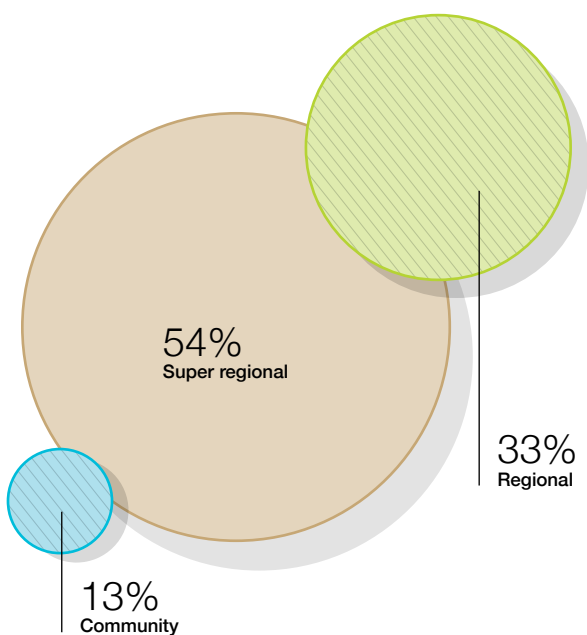
penetration and governments actively focused on investing in technologies and entrepreneurship, the online retail industry is expected to soar by 2021.

- It is our view that brick & mortar stores will continue to be essential given that shopping centres in Dubai provide family entertainment, in addition to shopping and respite from the summer heat, however retailers may look to realign their real estate strategies to reduce operating costs and to invest further into online channels.

Value-Added Tax (VAT)

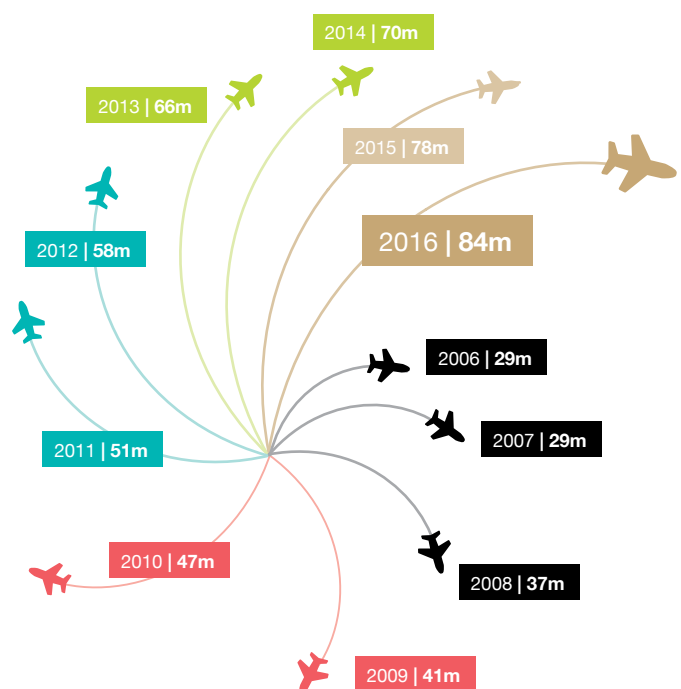
- While the market awaits more detail regarding the planned 5% VAT on goods and services in early 2018, it is highly likely that shoppers will accelerate their purchases to beat the increase in prices. Looking ahead, retailers will have to make a call on whether they will absorb the VAT, which will reduce their margins.
- Retailers seeing weaker sales will be under increasing pressure to look at overall occupancy costs, as VAT will increase these by 5% (assuming that VAT will be charged on commercial rents). Tenants are expected to use this as leverage in rent reviews with landlords for 2018.

FIGURE 2
Breakdown of under construction retail space by type, 2017



Source: Knight Frank Research

FIGURE 3
Dubai International Airport passenger traffic, in millions



Source: Dubai International Airport

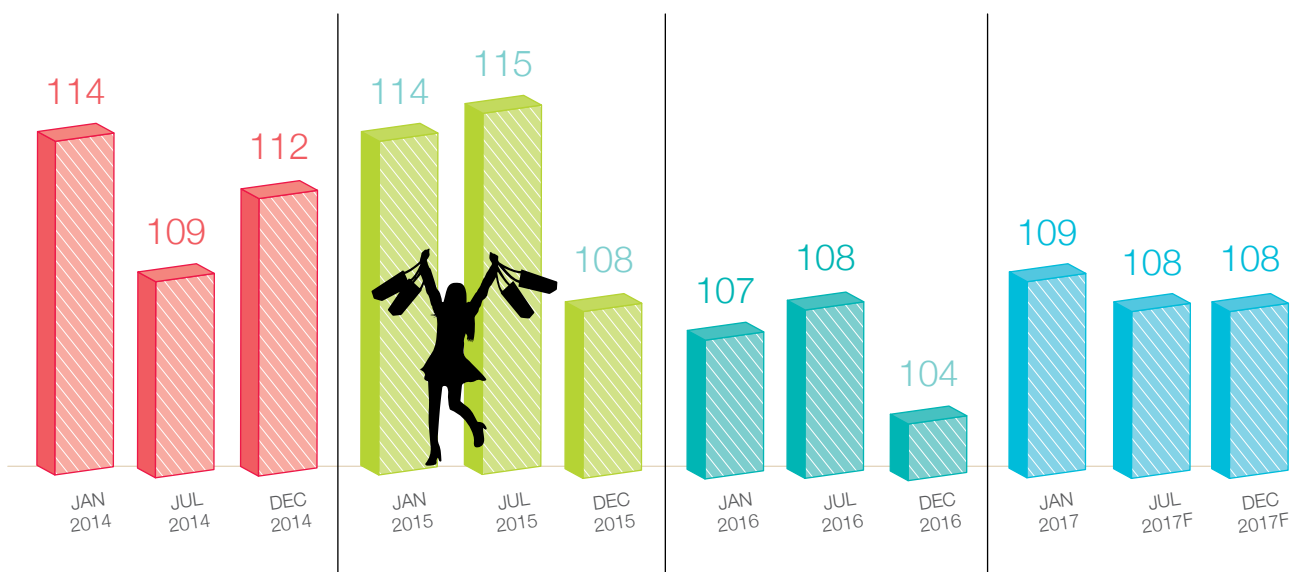
MARKET OUTLOOK

- The general sentiment among retailers and mall operators is expected to remain cautionary in 2017. Consumer confidence is low amid job insecurities, and the higher cost of living has impacted residents' purchasing powers. In addition, the strengthening of the USD is showing little respite, particularly with the potential for interest rate hikes in 2017. This will ultimately push the UAE Dirham even further, making the country an expensive retail destination, especially for luxury shoppers from countries such as China, Russia and India.
- UAE shopping malls are also expected to experience further competitive pressures from online rivals, as more consumers embrace e-shopping. In Dubai, the strong supply pipeline is likely to weaken rents and potentially result in a market correction.
- Our long-term view remains optimistic as Dubai's retail market is strongly supported by the hospitality sector. The delivery of Dubai's theme park complex amongst other demand generators is expected to drive the hospitality market, which will undoubtedly have knock-on effects on the retail market. This is maintained by on-going investment in the supporting infrastructure namely Dubai International Airport (currently the largest in the world in terms of international passenger traffic) and Al Maktoum International Airport, in addition to the expansion of Emirates Airlines.



Dubai international airport terminal

FIGURE 4
United Arab Emirates consumer confidence



Source: The Nielsen Global Survey of Consumer Confidence and Spending Intentions 2016



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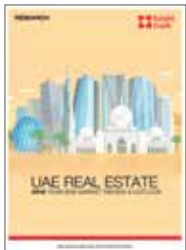
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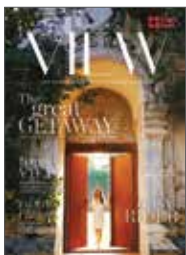
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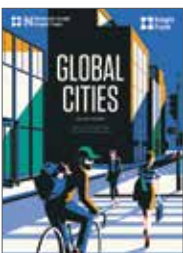
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