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DUBAI RETAIL REVIEW

2017

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This publication

This document was published in March 2017. The data used in the charts and tables is the latest available at the time of going to press. Sources are included for all the charts. We have used a standard set of notes and abbreviations throughout the document. The future supply figures quoted may change due to phasing or delay in deliveries.

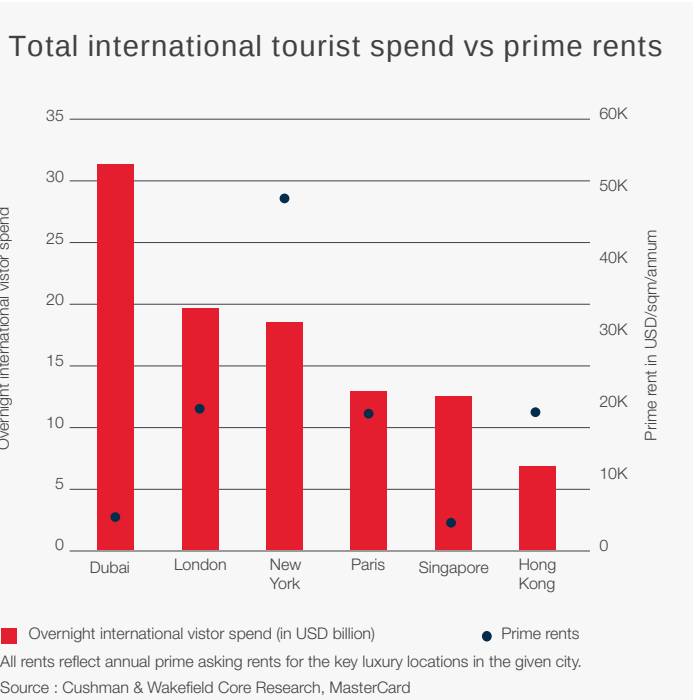
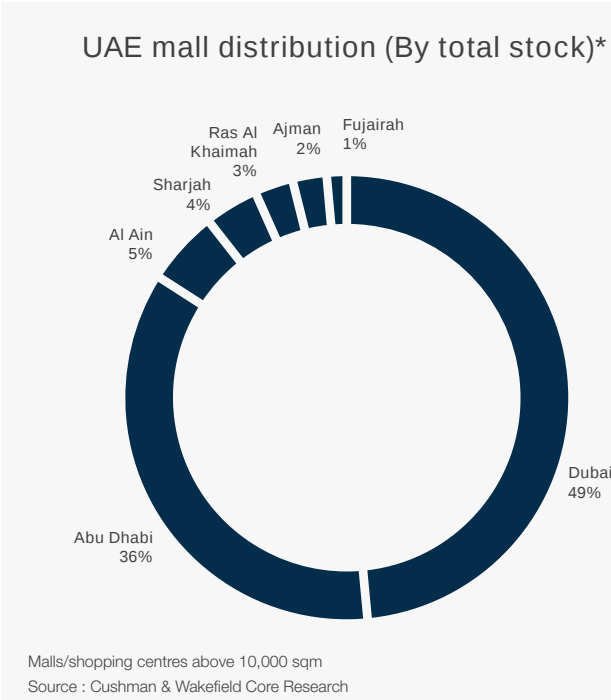
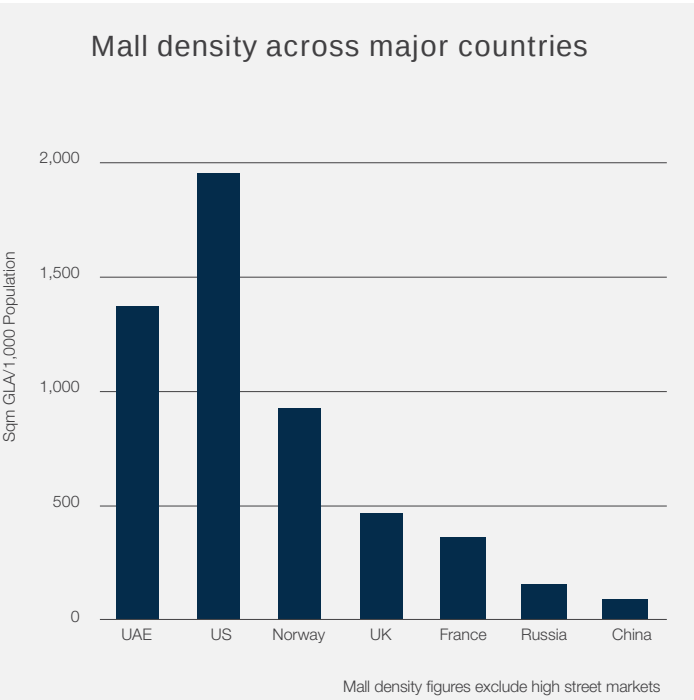
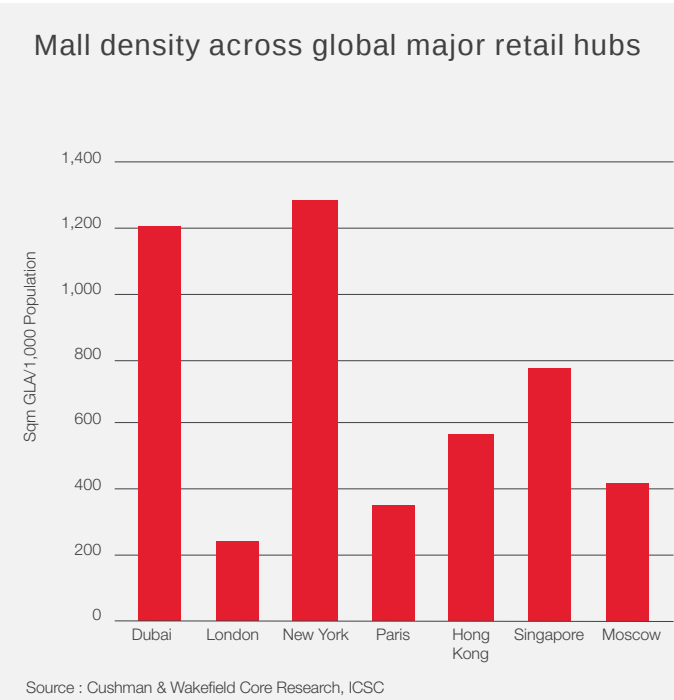
Foreword

Dubai’s retail and trading sector, by contributing 29% to Dubai’s GDP while employing about a quarter of the workforce, remains the cornerstone underpinning Dubai’s growth. The city prides itself of being home to unmatched superlatives in global retail, which its robust network of tourism and transport infrastructure further feed. The statistics are staggering, be it in footfalls or total international tourist spend. The Dubai Mall, also referred by some as a “mallopolis” for being the largest mall in the world by total area, has an annual footfall of over 80 million, on par with Dubai International Airport - the busiest international airport in the world.

Dubai also jumped to the top rank in the world in the MasterCard global destination cities in 2016, reporting a total international visitor spend of USD 31.3 billion, (58% higher than the second-place London), yet offering the most competitive prime rents across global retail hubs. This value proposition positions Dubai favourably amongst luxury and fashion retailers. With over 60 malls/shopping centres* and a global brand presence rising to be on par with other gateway cities such as New York and London, Dubai, despite its modest population, has the 2nd highest mall density in the world at 1,214 GLA sqm/1,000 pop, trailing marginally behind New York.

Although mature in its volume and retail offerings coupled with a strong B2C network, Dubai’s retail sector largely remains an oligopoly with its economics unlike any other international retail destination. Demand is led by privately owned retail groups, which operate almost 90% of global brands in Dubai while the top-5 state-backed developers form nearly 87% of total retail supply. To enter one of the most profitable global markets, most international brands form a licensing arrangement with these key trading groups who achieve better negotiating capabilities with the developers and significant economies of scale. In a retail ecosystem such as Dubai, this “close control” makes the

market relatively less elastic compared to other global markets which are typically driven by a much larger pool of offer and demand – thus making Dubai’s retail segment a very interesting model to study. Through this publication, we delve into the underlying dynamics of this unique marketplace, analyse opportunities, trends and the future course in the backdrop of contracting margins and disposable surplus evidenced by the rallying dollar and continued lull in oil prices.



Supply

Dubai holds nearly 49% of the total retail stock in the UAE, followed by Abu Dhabi at 36%. With a market size of about 3.2 million sqm (GLA), over 87% of the total stock is managed by the top 5 developers; Emaar, Nakheel, Majid Al Futtaim, Al-Futtaim and Meraas. Occupancy levels across top performing malls are northwards of 95%, particularly more for the malls established in the last decade. The opening of the freehold market in the early 2000's followed by the booming economy, helped most of these flagship malls to be tenanted at a rapid pace as retailers tried to capture the growing captive and tourist traffic, while establishing their presence in the region to which Dubai was largely the first port of entry.

Interestingly, Dubai has a mall density nearly 380% higher than that of London and 240% of Paris, although because these European markets have a stronger high street market in addition to a much higher population base. That said, Dubai is also positioned higher than other Asian markets which have a significant mall stock such as Hong Kong (by 113%) and Singapore (by 56%). Such high mall density is largely justified by Dubai's very high visitor to tourist ratio of nearly 5.6 visitors per resident – the highest amongst all global retail destinations.

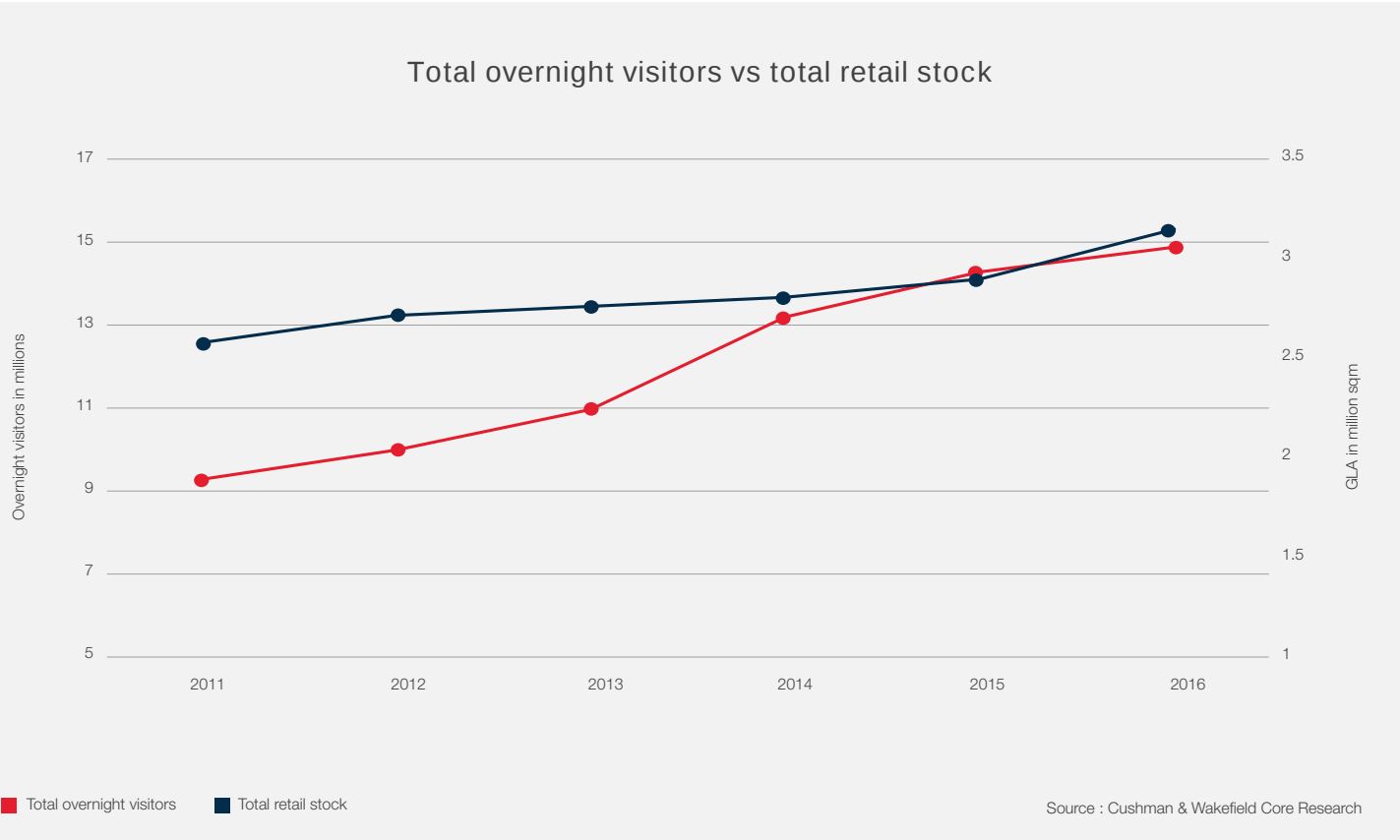
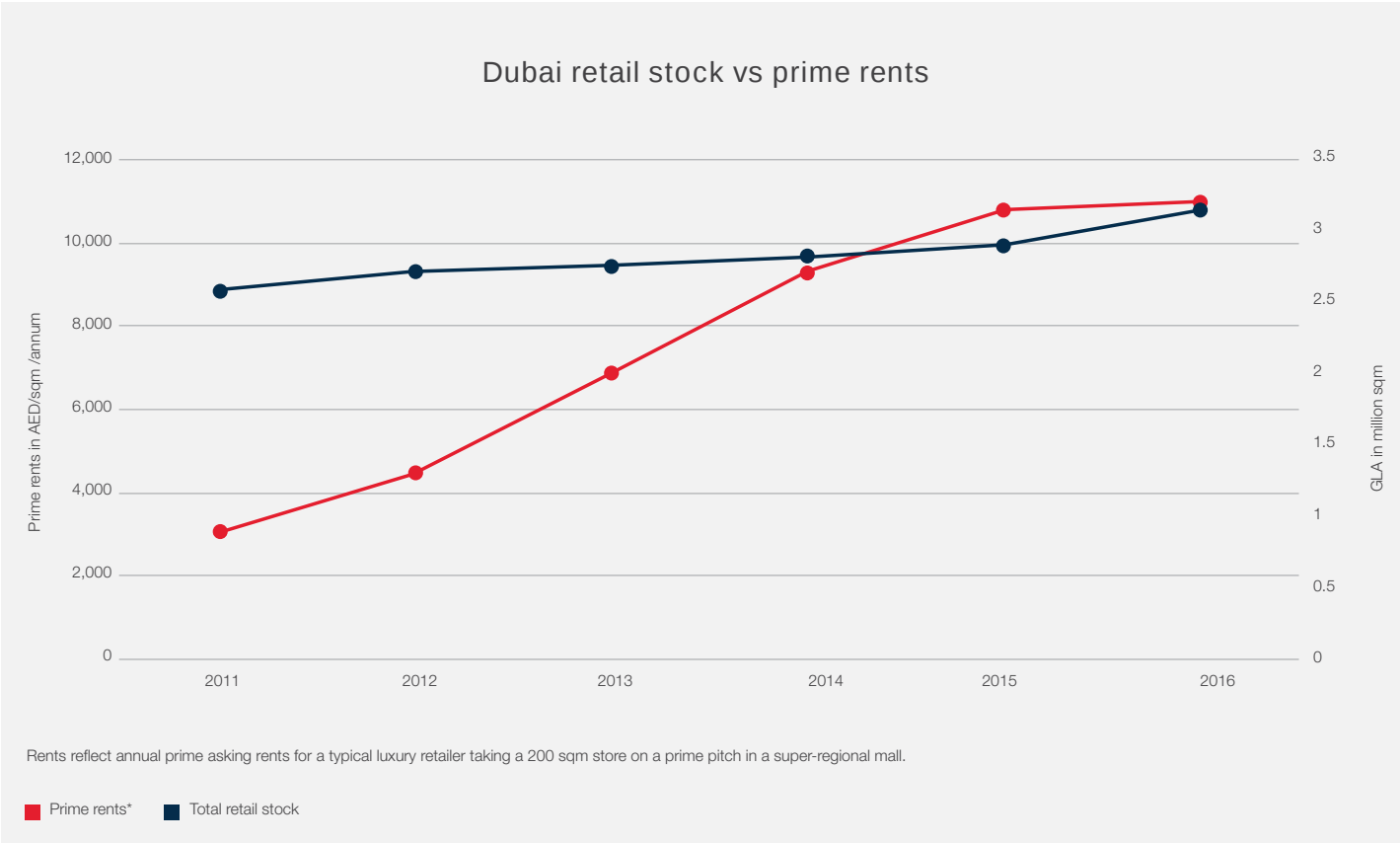
Retail rents marked an uptick post the recovery from the global financial crisis and have now been almost flat for the last two years, indicating that the market is close to the top of its cycle. The delivery of new retail stock has been driven by past positive indicators of growth and 2016 saw many prominent offerings coming to the market that were largely initiated during the revival of 2011-2013. Unsurprisingly, rent stabilization has been in tandem with the spike in supply levels marked since 2015.

Notable new entries to the market in 2016 were Meraas' Phase 2 of the Avenue in City Walk and Outlet Village in Jebel Ali, Nakheel's Dragon Mart 2 and Ibn Battuta Phase 1 extension, Club Vista Mare on Palm Jumeirah and Al Futtaim's Festival City Expansion. Furthermore, a few community retail centres also entered the market such as the International City Pavilion, Al Furjan Pavilion and The Ribbon in Motor City.

Strengthening its retail domain with arts and culture, the high point in Dubai's tourism calendar in 2016 was the opening of Dubai Opera situated in Downtown. It expands Dubai's leisure offerings and adds value to the F&B and retail outlets of the Downtown district in addition to feeding traffic to and from The Dubai Mall.

Many projects which nearing completion like The Dubai Mall expansion, Nakheel Mall and Pointe on the Palm Jumeirah, are witnessing stable pre-leasing activity. However, with more malls aiming to be operational in the run up to Expo 2020, an overhang of overall retail supply is expected. Nearly 800,000 sqm of major retail supply is forecast in the next three years, adding 25% to the existing stock.

"The delivery of new retail stock has been driven by past positive indicators of growth and 2016 saw many prominent offerings coming to the market that were largely initiated during the revival of 2011-2013. Unsurprisingly, rent stabilization has been in tandem with the spike in supply levels marked since 2015".



Demand

The retail market in Dubai is seasonal, peaking at the Dubai Shopping Festival while witnessing a drop in footfalls in summer. The recently concluded Dubai Shopping Festival marked its 22nd year in 2017. It strategically started earlier than usual this year to coincide with the festive and holiday season and the winter vacation for schools, leading to more business for retailers. It remains a key indicator of the for-Dubai's retail and tourism performance, however, it is yet to announce the total retail spend and footfalls for 2017 at the time of this publication.

On average, Dubai has an influx of 10% of its original population each day and is the third most visited city in the world with over 15.3 million international overnight visitors with a spending of \$2,050 per overnight visitor - the highest in the world. This robust demand from tourism along with a cosmopolitan captive consumer base makes Dubai amongst the most preferred destination for international retailers and by far the deepest penetrated market in the region.

Most retailers in the region work under the franchise model to capture economies of scale while achieving ease of doing business across formats and geographies as large franchise groups have a much stronger negotiating power with developers than isolated retailers. In a few instances, the landlord and retailer are part of the same conglomerate. This further emphasizes the “oligopoly” that we highlighted at the outset.

Despite the softening regional economic conditions, demand from retailers has not seen a significant dip with stable preleasing activity witnessed in The Dubai Mall expansion and other strategically located under-construction malls nearing completion. Furthermore, the super-regional malls which are located on the Sheikh Zayed road are all currently witnessing occupancies northwards of 98% despite new expansions inaugurated over the last 2 years. This has led many retailers to be on the waiting list as developers aim to maintain a tenant mix that is unique and appropriate for the pitch in which the brand is located.

Elsewhere, City Walk led the absorption of new international retailers and first to market concepts followed by the Festival City mall expansion. Notable new entrants in City Walk are Dinh Van Paris, Georg Jensen and Karl Lagerfeld while Festival City is expected to open Robinson and John Lewis in 2017.

Nonetheless, anecdotal evidence from many retailers suggests that the steady increase in visitor traffic is not reflecting in an increased sales conversion rate, particularly in the luxury sector. The strengthening dollar has caused a contraction in spending from Russian, British and European tourists while the lull in oil prices and ensuing austerity measures have affected the buying sentiment, particularly for discretionary spending of the GCC consumers. However, these reductions in spending from traditional core target nationalities are partially offset by others such as Indians and especially Chinese buyers. The provision for visa on arrival for the Chinese visitors announced in September 2016, makes Dubai easily accessible to this burgeoning tourism demographic.

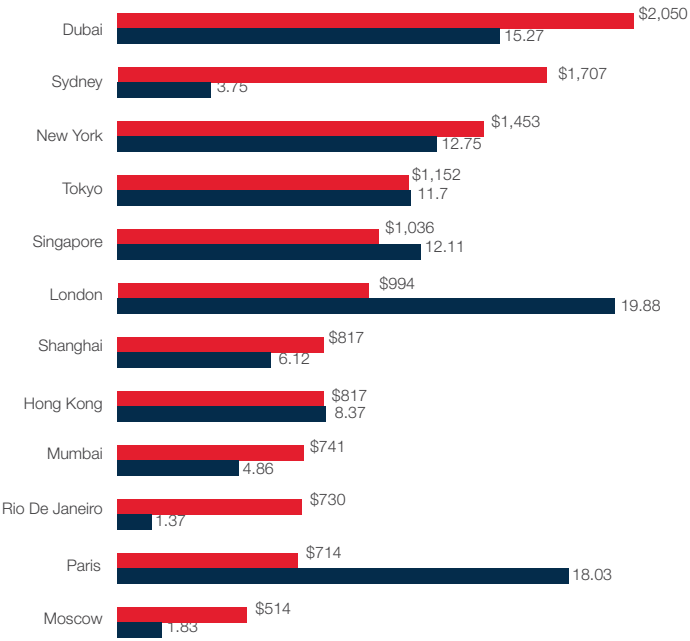
Interestingly, despite major mall developers reporting y-o-y profits, the slowing rate of growth witnessed by retailers has led the Dubai chamber of commerce to recently suggest developers to reduce rents to reflect the current market conditions.

Which visitor cities are the most global?

	International overnight visitors (m)	Domestic overnight visitors (m)	% domestic
Dubai	15.27	-	0%
Singapore	12.11	-	0%
London	19.88	13.02	40%
Paris	18.03	16.94	48%
Hong Kong	8.37	18.32	69%
Sydney	3.75	9.20	71%
New York	12.75	44.50	78%
Mumbai	4.86	30.00	86%
Tokyo	11.70	(est) 62.21	84%
Rio De Janeiro	1.37	(est) 10.00	88%
Moscow	1.83	15.47	89%
Shanghai	6.12	(est) 20.00	77%

Source: MasterCard, Cushman & Wakefield Core Research

International visitors



■ Average spend per international overnight visitors
■ International overnight visitors (millions) 2016

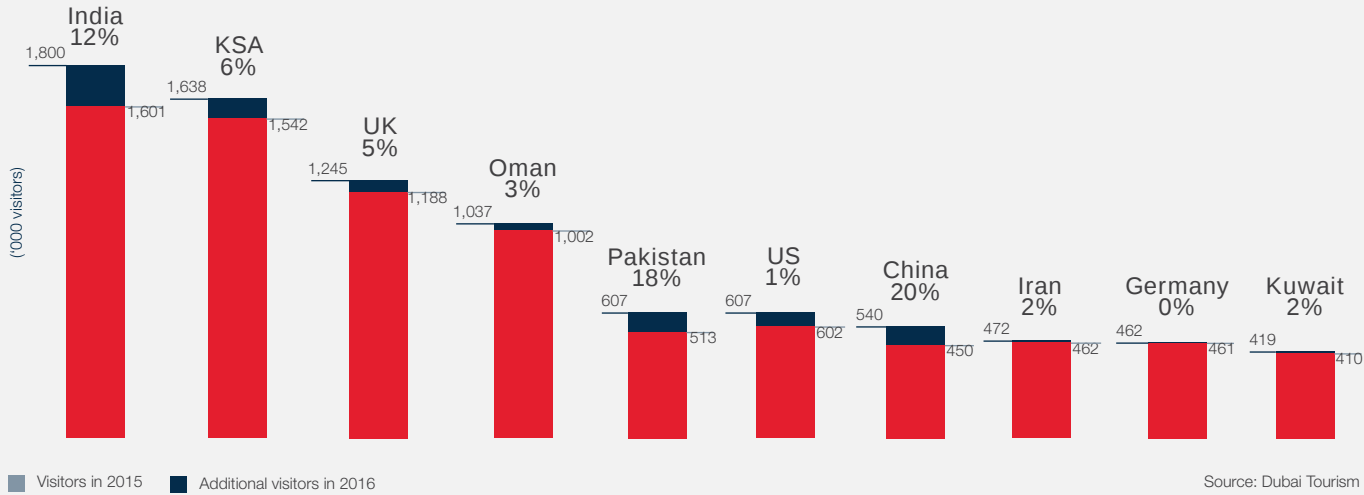
Source: MasterCard, Cushman & Wakefield Core Research

International overnight visitor spend (in billions)

New York		London		Paris		Dubai		Singapore		Hong Kong	
\$3.50	\$4.57	\$3.26	\$9.23	\$3.04	\$2.15	\$4.70	\$9.70	\$1.54	\$2.82	\$1.33	\$2.10
F&B	Retail	F&B	Retail	F&B	Retail	F&B	Retail	F&B	Retail	F&B	Retail

Source: MasterCard, Cushman & Wakefield Core Research

Performance of top 10 source markets

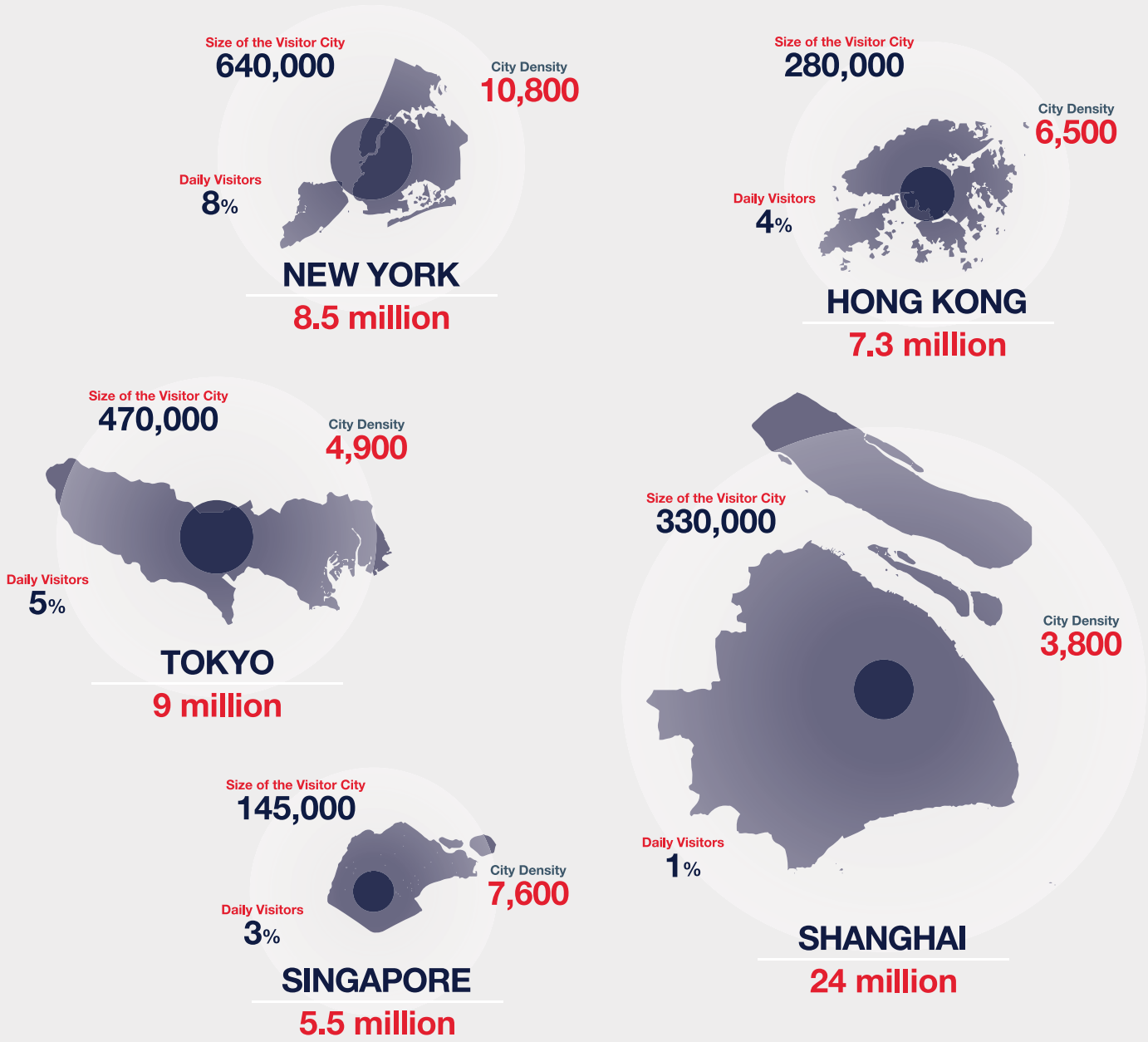


Source: Dubai Tourism



Visitor population across global cities

Comparing how different global cities' population density swells each day due to the influx of visitors



Source: Cushman & Wakefield Core Research

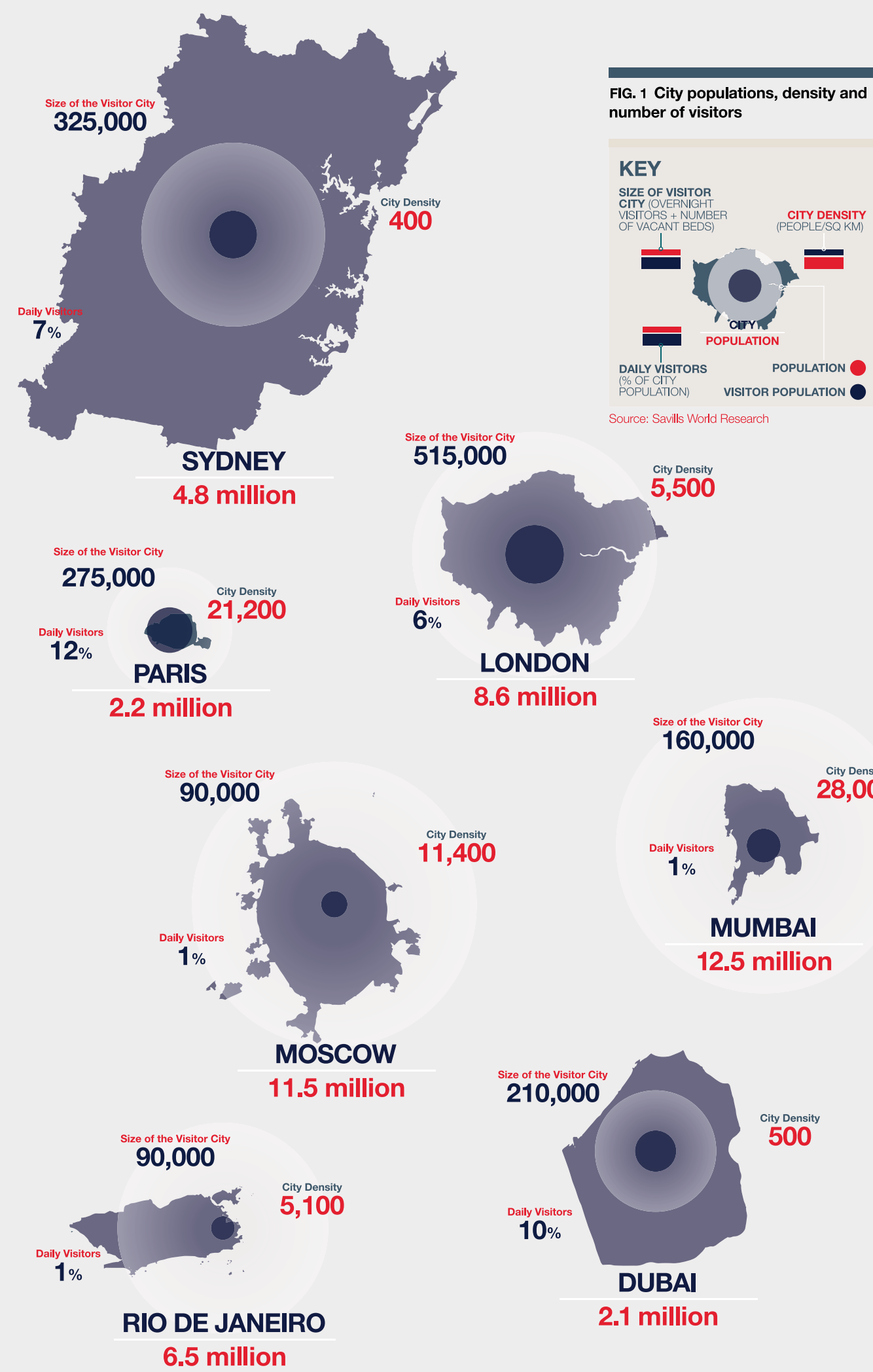


FIG. 1 City populations, density and number of visitors

KEY

SIZE OF VISITOR CITY (OVERNIGHT VISITORS + NUMBER OF VACANT BEDS)

CITY DENSITY (PEOPLE/SQ KM)

POPULATION

DAILY VISITORS (% OF CITY POPULATION)

VISITOR POPULATION

Source: Savills World Research

Shift from Malls to High Street Retail

Although super-regional malls remain tourism anchors, developers are increasingly becoming aware of changing consumer patterns in Dubai. A shift in the development strategy is emerging as new retail formats such as pedestrianised high-streets, which bring human scale to the built form while enhancing the urban fabric of the districts they are a part of, come into being.

Dubai’s mall to high street ratio is highly skewed when compared to other global cities, particularly London and Paris where retail is largely driven by high street spaces. This transformation in stock marks a beginning in the diversification of retail assets in Dubai. Meraas, particularly leads the pack of such offerings with its portfolio consisting of unusual shopping destinations namely City Walk, Box Park, The Beach at Jumeirah Beach Residence, the recently launched Outlet Village and the upcoming retail component at Bluewaters — all low-rise pedestrian strips that cater to specific local catchment areas, yet appeal to a wider tourist base.

Pedestrian retail promenades within districts are also being developed across many commercial and residential areas. For example, the retail spine nearing completion in DIFC is expected to provide better access between towers and integrate the whole precinct, in addition to likely contract the

rental gap between the core and outer towers in DIFC.

Similarly, the pedestrianisation of Palm Jumeirah, for which a mockup of a couple of hundred metres long is currently under construction, is expected to create an urban community area that is connected to a growing number of retail, dining and entertainment facilities.

Interestingly, retail developments across upcoming commercial centres are mirroring the design philosophy of the district. For example, D3, with its investment grade offices, ateliers and retail outlets blurs the edges between spaces of work and play. Furthermore, regeneration activity across older industrial areas such as Al Quoz is leading to quirky warehouse based art centres, start-up incubators and gymnasiums mushrooming in the district - for example Al Serkal Avenue. Prominent future supply, such as Mall of the World, which is in its planning stages, is also looking at temper ature-controlled pedestrianised retail and cafes, taking this trend ahead.

Through the development of these pockets of art, design, music and sport, integrated with retail and F&B, Dubai is learning to use urbanism as a powerful tool to enhance public interactions through built and particularly open spaces, a progressive shift from the dominant “building big” philosophy.

Investing in retail

Although a very active investment sector elsewhere, e.g. the West End in London or Manhattan in New York, the retail market in Dubai has not yet emerged as a thought-after investment target from institutional and private investors alike due to the high level of control from the leading retail groups and developers.

If and when these assets ever come to market, they are likely to command interest, particularly from institutional investors as the core super-regional malls make a strong case for investment grade assets, similar to Dubai’s limited Grade A office stock. Factors such as a high footfalls, near full occupancy levels, premium tenants and relatively much lower risk than other emerging markets, are expected to translate into stable yields reflecting Dubai’s leading role on the global retail stage.

Nonetheless, a shift is starting to emerge as developers of a few under-planning master communities are considering JV mechanisms for their upcoming mall schemes.

Increasing presence of online retail

In the last year alone there have been many e-commerce portal launches, diversifying the retail platforms in the region while looking to tap a wider audience. For example, noon.com was announced by Emaar’s Chairman, Mohamed Alabbar, while ounass.com an Arabic/English site and the Anglo-Italian luxury online retailer, net-a-porter.com, also came to market. Brands are also increasingly attracting consumers through their social media interactions promoting their online experience.

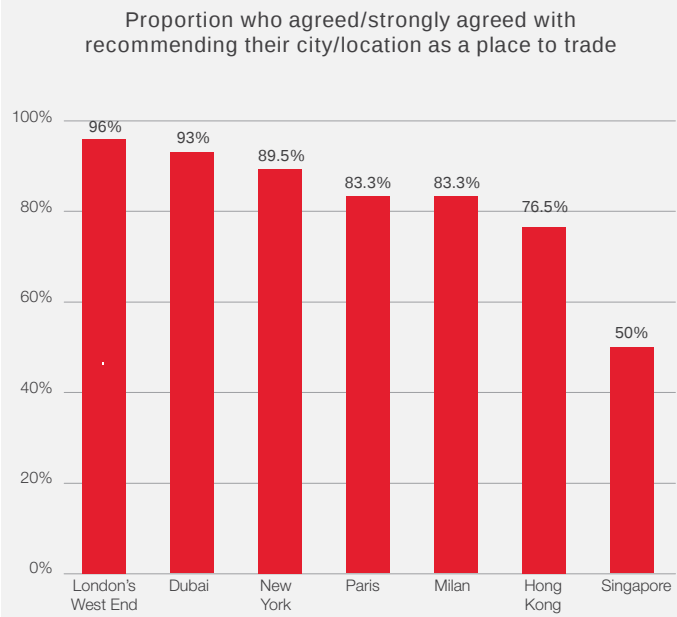
Although trust remains an issue, buying sentiments are changing as access to a much larger inventory of products offered with cash on delivery, which remains the major way online sales are conducted in the region, becomes available.

Online retail remains an emerging segment in this region which is yet to impact the market share of the brick and mortar stores – albeit for now. On the other hand, it will certainly positively affect the supply chain ecosystem and result in added demand for warehousing and distribution.

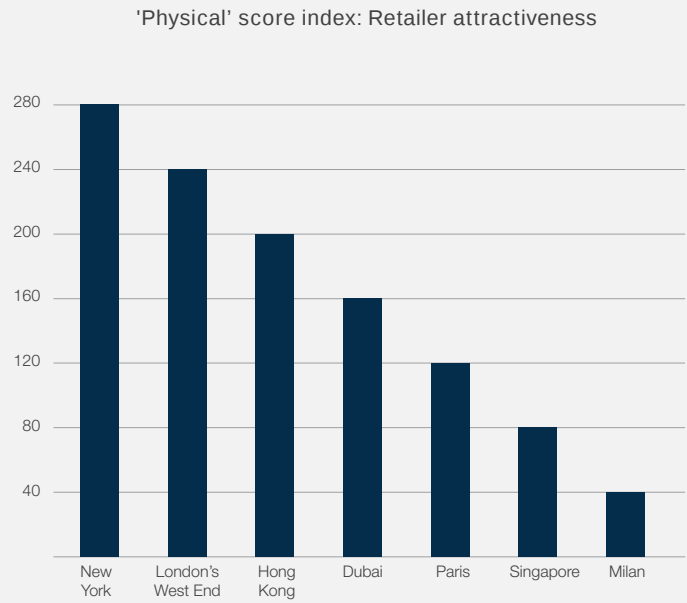
Malls vs High Streets



Quantitative comparison of Dubai with other global hubs

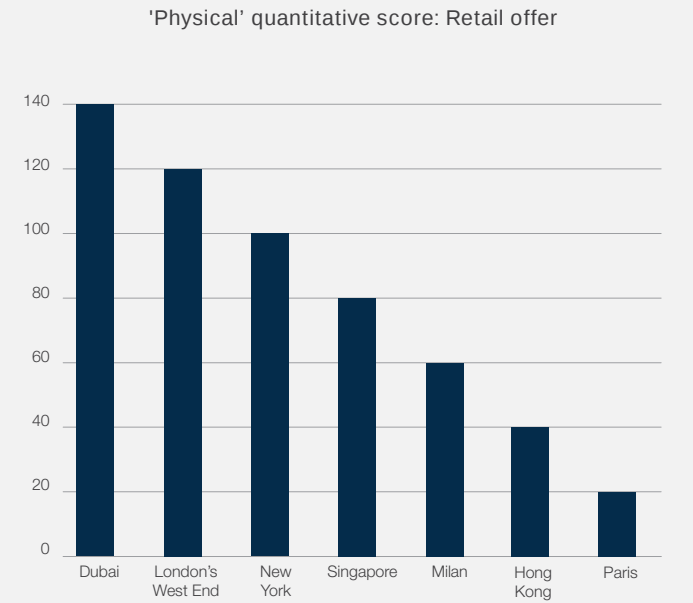


Source: The Retail Group



Retail attractiveness is a weighted score consisting of retail sales, tourist flows, property costs and retail mix.

Source: Cushman & Wakefield Core Research; Oxford Economics



The retail offer score takes into account the proportion of units occupied by retail brands, brand variety, brand profile and presence of flagships across its three streets relative to their comparator retail locations in the other Global Cities.

Source: Cushman & Wakefield Core Research



Concerns

With the looming overhang of deliveries of over 800,000 sqm expected to escalate existing high levels of mall density in the next three years, the warning signs of market saturation have started to show. Although overnight visitor numbers and spending remain strong and in line with the vision to welcome 20 million tourists by 2020, the sustainability of the impending mall supply to balance captive resident and visitor demand remains under scrutiny.

While the emirate is not overly dependent on tourists from any one country, visitors from Saudi Arabia and the UK are major growth drivers for the Dubai retail market. The impact of low crude oil prices on GCC buyers along with the strengthening US dollar which makes Dubai an increasingly expensive place to shop for British and European buyers, are among factors that give retailers cause for concern. This is exacerbated for the luxury sector which has started to feel the heat of slowed conversion rates from footfalls to revenue.

Steady rents which are yet to reflect these relatively lower margins are straining the ability of some retailers to pay rent for the prime strips that they occupy. Most malls also require stores to undergo a facelift every three to five years - adding to the rental cost. Furthermore, the introduction of VAT in 2018, the effects of which are yet unaccounted for, may further impact retailer margins.

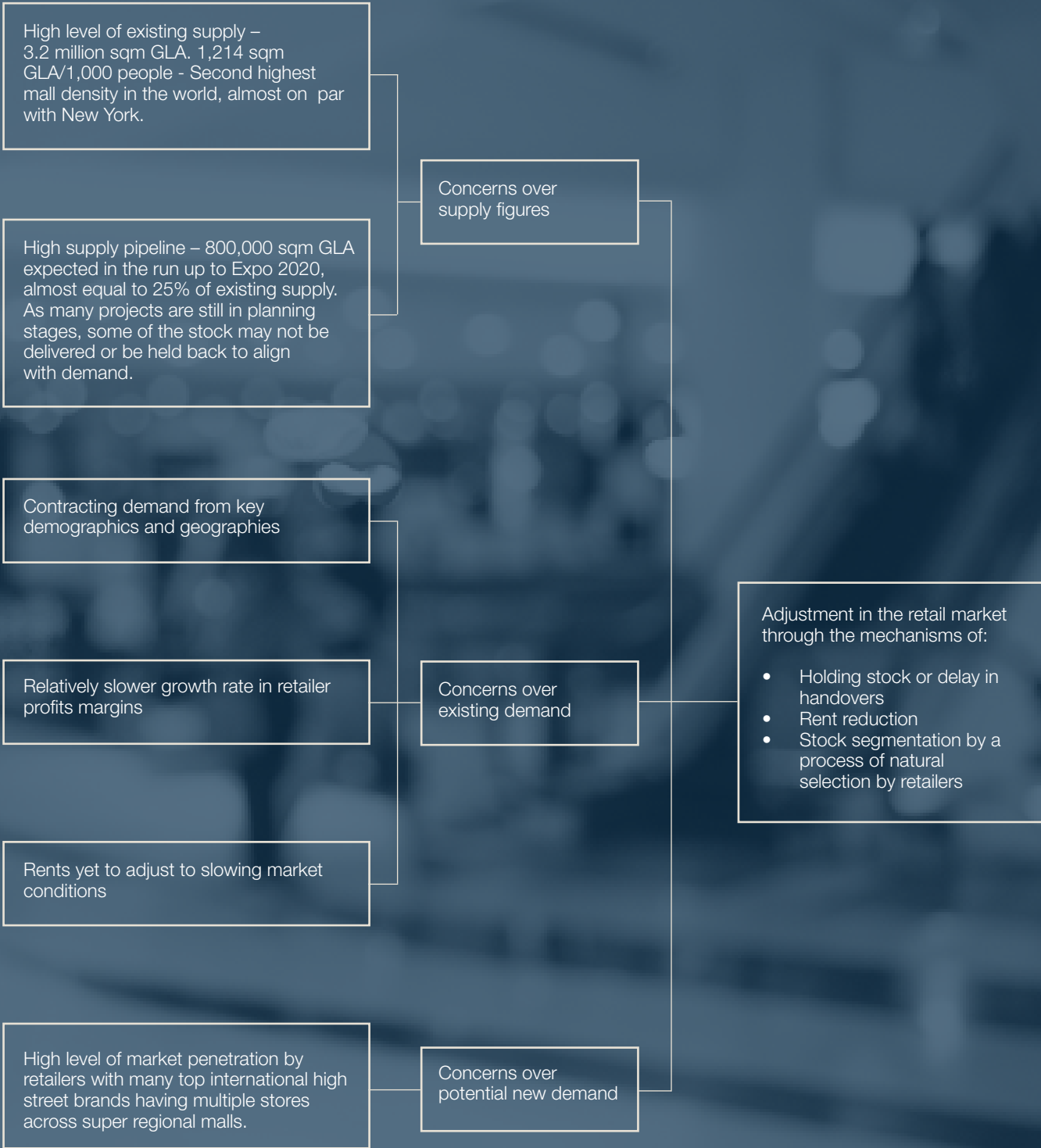
With most major international brands already having a presence in Dubai and many in fact having multiple stores across super-regional malls, room for potential demand may start to contract as market penetration reaches its peak.

Looking ahead, the combination of these factors will require quantitative adjustments of supply and rentals. Rental adjustment is the most probable scenario because effective supply control is unlikely due to the relatively less elastic nature of the Dubai retail market when compared to other sectors such as the residential segment where developers can always phase out stock in line with actual demand. On the contrary retail developers may not be able to afford to phase stock, as new malls coming to the market need to achieve a critical mass of occupancy levels to become operationally successful.

Nonetheless, Dubai's retail stock performance is going to vary across formats and a nuanced analysis is required. As the whole market is unlikely to adjust as a single entity, we expect stock segmentation to progressively make the retail sector tiered and the correction mechanism will largely depend on the sub-segment and the location that the stock belongs to.



Concerns affecting the Dubai retail market



Segment forecast

We expect the three super-regional malls on Sheikh Zayed Road - The Dubai Mall, Mall of Emirates and Ibn Battuta Mall which are aided by the Dubai Metro for a significant surge in footfalls, to do well with their present stock and expansions and to remain the top choice for existing and new brands as the market starts to saturate.

As Dubai continues to attract and retain a diverse talent pool, changing consumer preferences and younger demographics have led newer retail formats to come to the market. These projects enhance the public realm through pedestrianized high streets while adding a human scale to build form – a shift away from existing heavily built spaces. Such retail offerings are expected to gather pace as they add value to residents by upgrading community living without losing the tourist appeal, capturing both these demand segments. However, as the climate hinders the economic performance of these districts during the summer months, solutions such as temperature control methods will have to be implemented. Interestingly, the phase 1 of the Mall of the World, currently in its planning stages, is expected to include shaded walkways and temperature controlled arcades to provide maximum comfort to pedestrians.

On the other end of the spectrum, developers are also introducing community retail in conjunction with their residential developments, addressing existing captive demand for F&B and supermarkets. We predict community centres, which offer a well thought out tenant-mix and serve a strong captive market, to perform well, while retaining retailers as well as minimizing leakages to super-regional malls, particularly for basic needs.

Retail outlets in outer areas which do not have access to public transport, coupled with a relatively poorer tenant-mix and lower catchment populations may witness absorption issues and downward pressure on rents.

Outlook

Dubai has long shed its “emerging retail market” tag and has firmly positioned itself as a global shopping destination on the back of its robust retail and tourism sector, in turn positively affecting other domains of its diverse economy. With rising levels of new stock coming to market over the next three to four years and first signs of market saturation starting to show, it is to be seen if demand can continue to match up – albeit the strength doesn’t become a threat instead.

Despite a relatively closed market, we foresee the retail sector to progressively segment itself with higher and lower performing assets created by a process of natural selection by retailers. A gap is anticipated to form between these two subcategories, reflected through heterogenous rents and vacancy levels – a case similar to Dubai’s two-tiered office market. Retailers are expected to optimize footprint and mark a flight to quality towards perceived high functioning malls while the slower performing assets may see a cascading effect of rising vacancy levels caused by this shift.



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