

As far as the United Arab Emirates is concerned the coveted petroleum or 'black gold' of the 1970s has lost its lustre. In Dubai the race to build the biggest malls is turning the city into the region's premier shopping destination. The Dubai fever is second to none despite frenetic activities in neighbouring Abu Dhabi and the Saudi Arabian cities of Jeddah and Riyadh.

Mid-east mega mall race

From black to 'retail gold'

Joel Vega

Summary:

The UAE's Dubai is racing ahead of its Gulf neighbours to secure the coveted title of premier shopping destination in the Middle East. With five mega malls being built for an estimated two million gross leaseable area (GLA), Dubai easily overshadows Riyadh and Jeddah in Saudi Arabia. Industry insiders are optimistic that despite the rapid growth, the region can sustain the boom. Dissenting opinion is largely muted by investor enthusiasm. But would the promise deliver the expected dividends?

At the leading annual retail real estate MAPIC exhibit and conference held in Cannes last November, the booths from property investors and developers based in the Middle East had one thing in common: a steady stream of visitors checking the glitzy visual displays that show the hectic real estate development engulfing key cities in the Gulf. "This is the place to be," said an enthusiastic European retail executive as he eagerly leafed through the glossy photos and brochures.

From 'no grass' to glass The adage that the grass is always greener on the other side is not true in Dubai. In the 1980s, there were literally no grassy views as sandy stretches of empty lots in mid-town Dubai were the more common sight. Today, the same commercial lots are being transformed into centres of towering skyscrapers. At the MAPIC symposium on the Middle East, participants watched film slides that compared the Dubai of today to that of the 1990s. The most striking changes were literally rising from Dubai's horizon as the city's skyline now proudly sports a line of glittering glass towers. And more real

estate developments will continue to sprout in the next decade as the wheels of development, efficiently oiled by fresh investments, hum into action.

"There are 326 million people in the Middle East with around US\$426 billion combined GDP (gross domestic product). This figure is more than that of South-East Asia," said Graham Dreverman, group vice president of Asset Management for Majid Al Futtain (MAF) Investments. Dreverman, one of the resource speakers at MAPIC 2004, gave full assurance that the Gulf region, particularly Dubai, is fully open and ready for business. Retail space figures in the Gulf are staggering. Across the GCC (Gulf Cooperation Council) countries, some 3.8 million m² of shopping centre space has already been completed. With around 2.2 million m² under development, plus 600,000 m² tagged as 'probable' and another 2.8 million m² as 'possible', there is a total potential of around 9.4 million m².

Of the key Gulf cities, the main concentrations are Dubai (631,000 m²), Jeddah (595,000 m²), Abu Dhabi (460,000 m²) and Riyadh (411,000 m²). The latest figures compiled by consultants



Considered as the Middle East's largest privately funded mixed-use real estate project, the Al-Futtaim Group is building the Dubai Festival City with the development of some 1,600 acres on the banks of the Dubai Creek. When completed the Waterfront Centre will have around 250,000 m² gross leaseable area.

Retail International also showed that by year 2009, Dubai will offer over two million m², followed by Jeddah (over 750,000 m²), Riyadh (over 600,000 m²) and Abu Dhabi with around 550,000 m².

"Dubai is an anomaly," added Dreverman as he responded to concerns that the Middle East or the Gulf region in particular is largely viewed by Western investors as fraught with political (read: investment) risk. "The key drivers for sustainable growth are all present in the region. Steady population growth, a high GDP, tourism growth particularly in the UAE and the government's commitment to attain its goals. The perception that the UAE is dependent on oil is not true. Less than ten per cent of the UAE's GDP comes from oil," added Dreverman. Retail International figures showed that by 2010, 1.5 million m² will have been added to the existing stock of 600,000 m² in Dubai. With a further 900,000 m² potentially possible, the total would rise to around three million m². With Dubai already accounting for 17 per cent of total GCC gross leaseable area (GLA) footage the projected increase will double Dubai's share to 34 per cent within the next five years.

Currently, Dubai has five mega malls under development. Topping the city's mega list, and considered the largest mall in the world, is The Mall of Arabia, designed as the centrepiece of 'Dubailand' which is UAE's version of Disney World. The Mall of Arabia will have an

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estimated GLA of 600,000 m² (around 6.5 million sq. ft.). Ranking second is The Dubai Mall being developed by Emaar Properties with around 500,000 m² GLA. Scheduled for completion by late this year is the Mall of the Emirates from MAF Investments with an estimated GLA of 400,000 m², and which will house not only the region's first 'real snow' ski

slope but also the UAE's biggest Carrefour hypermarket. Also due for completion this year is The Gardens Mall with 300,000 m² GLA being developed by Al Nakheel. Garden Malls will be anchored by Carrefour rival Casino's Géant hypermarket brand. Garden Mall also boasts the region's largest cinema complex with an IMAX theatre forming the core of the entertainment offer. Lastly, the Al-Futtaim Group is building the Dubai Festival City with the development of some 1,600 acres on the banks of the Dubai Creek, considered as the Middle East's largest privately funded mixed-use real estate project. The Waterfront Centre's retail and entertainment sector will occupy around 250,000 m² and will be anchored by ten large format international brands such as a sprawling IKEA mega store.

'Catch-up' market "Is the Middle East building just for the sake of building?" asks Ian Watt, managing director of the South African-based Old Mutual Properties. Watt, who examined the typical Western notion of the Middle East as a 'boom' market, stressed that the Gulf region is more complex than it appears

to be. "The disparities in the Middle East are wide. They lag the West in terms of modern facilities, and some countries are in different stages of development than others," Watt said as he corrected the Western view that the Gulf region has pockets of deep underdevelopment. Saudi Arabia is one Gulf country that is playing catch-up with its nearest neighbours. Shopping centre development, however, in the Gulf's richest country is basically hypermarket-led. Europe's biggest food retailer, Carrefour, will anchor the 200,000 m² Granada Center in the capital city Riyadh. Granada will be the latest of similar projects such as the Al Azizia Mall (43,000 m²). Other projects across Saudi Arabia are the Dhahran Shopping City located in the country's oil-rich eastern Region, Al Khobar by Al Hokair Group, Mall of Arabia (150,000 m²) and the Serafi Mega Mall (100,000 m²) both located in the western city of Jeddah, with the Danube hypermarket chain as anchor in Serafi. Casino's hypermarket flagship Géant is also planning an ambitious rollout across the region beginning in Bahrain. Other countries lined-up by Casino for its Middle East push are Saudi Arabia, UAE and Lebanon.

Meanwhile in Kuwait the Al Kout and Al Manshar complexes are expected to add a further 80,000 m² to the existing supply plus an estimated 150,000 m² from the planned development at the Waterfront and the Al Rai projects. In Oman, an expansion project at the Muscat City Centre will add around 10,000 m² to the existing centre. Several projects in Qatar's West Bay district in Doha, on the other hand, will add at least 65,000 m² to the market, and in Bahrain expansion and re-development of the Bahrain Commercial Complex (mostly office retail space) which was built in the 1970s is expected to boost the retail complex.

Outside the Gulf, industry leaders who are looking for potential in the Middle East and North African regions also often cite Cairo and Beirut, which they expect to be among the region's key retail destinations. Both cities are expected to reach around 500,000 m² to 600,000 m² by 2009. In terms of population, Egypt has the edge and the most potential compared to Lebanon. Beirut, however, is showing steady economic recovery. Leading Beirut's retail revival is the Solidere company that is completing The Souks, a project that will add 100,000 m² of retail and entertainment space in downtown Beirut. Other shopping centre projects are the Dora Regional Centre, a 60,000 m² mall that is being built by Admic on Beirut's



Visitors check out real estate projects in Dubai at glitzy exhibit booths during the annual MAPIC conference held in Cannes last November.

northern periphery (hypermarket Géant is anchoring Dora), and the Beirut Mall developed and anchored by top Lebanese department store chain ABC.

ABCs of survival On retail strategies, Watts said that international brands have to closely evaluate local needs. "In the region there is a view that there are too many international brands. Although the hypermarket formats from France or Asia will attract customer numbers, what is needed is more local flavour. One can't just build hypermarkets that follow a purely Western philosophy," he pointed out.

Peter Walichnowski, CEO of MAF, added that solid partnership with retailers would also play a key element in the survival of retail real estate developers. "Active marketing plans, customer service programmes and an eye on the latest consumer developments in a retail outlet's particular field are all essential components when staying ahead of the pack," he said. Walichnowski further added that only by working together would mall developers and tenants play a formidable force in maintaining Dubai's leadership in the region's increasingly competitive retail market. Phil McArthur, leasing and marketing director of Dubai Festival City, acknowledged that, indeed, "good shopping centres will survive while the weak centres will encounter difficulty." Crunch time awaits the retail real estate

developers that fail to entice the expected customer numbers. The Middle East optimists are anchoring their forecasts on population growths, tourism and buoyant economies. Simon Thomson of Retail International noted that Dubai alone need to rung up some US\$8 billion of sales to support the amount of sales space. He said that competition from emerging countries such as China, Russia and India will also influence developments in the Middle East. Warning against complacency, he added retail real estate developers have to watch out and avoid misreading the vital signs. Vince Prior, European director of real estate consultants Jones Land Lasalle (UK) also takes the cautious side when looking at the Middle East scenario. "Faced with such rapid growth rates, one asks if it can be sustained. There is always a curve somewhere and the challenge is putting in place the right forward strategies once the momentum drops."

At the moment, no one is coming boldly forward for a sure and definite answer, with both the retail and real estate industries littered with boom and bust cycles in previous decades. Some retailers are also waiting in the wings for the right cue. Middle East experts like Dreverman, however, remain bullish on Middle East potentials. The enthusiasm is persuasive, especially when the chorus of veteran voices proclaim that now is just the right time to take a plunge into the Middle East's enticing pool of retail black gold. ●