



# The Middle East Retail Real Estate Dynamic

## Survey of the Region's Markets

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In half a generation, the Persian Gulf (or Arabian Gulf as it is better known locally) has developed into over a US\$50 billion retail market. The engine room for this growth has come from the six countries of The Gulf Cooperation Council (GCC)—something akin to the European Union—comprising Bahrain, Kuwait, Oman, Saudi Arabia, Qatar and United Arab Emirates (UAE). Adding in Jordan, Lebanon, Egypt, Syria, Iran and Iraq, the pan-Middle East retail market is reckoned to top US\$100 billion.

With a combined Gross Domestic Product (GDP) expected to reach US\$600 billion in 2006 and a population of 34 million people, including about 500,000 high-income professionals, the GCC is the world's 17th largest economy. It produces 16 million barrels per day (bpd) of oil and exports 13 million bpd generating about US\$250 billion in annual revenue.

### GCC Economy Truly Booming

From around 5 million square feet (sf) of gross leasable area (GLA) in GCC shopping centers in the early 1990s, the region's GLA has swelled to an estimated 53 million sf today, and is projected to reach over 130 million sf by 2010. (See Chart 9-1.)

The reasons for this growth lie with the basic demographic fundamentals of people and money. The countries of this region have been experiencing a largely unreported population explosion in recent years – in certain cases a doubling within a generation. (See Chart 9-2.) Furthermore, the overall economic situation has been very positive, transforming into a volcanic eruption of cash in the past 18 months caused by the massive hike in oil prices of over 60%.<sup>1</sup>

The GCC economies are being compared to China in terms of the surge in export receipts, the substantial current account surpluses, the large accumulation of foreign assets by the central banks and

the rest of the banking systems, and the investment boom. A report published by Dubai-based Business Intelligence Middle East (BI-ME)<sup>2</sup> highlighted studies by the Washington-based Institute for International Finance (IIF) and the International Monetary Fund (IMF) which provided highly positive assessments of recent developments and painted a very encouraging picture for the period ahead. According to the studies, oil and gas export receipts for the GCC in 2006 are expected to reach a record level US\$330 billion, which is more than double the average for 2000-2002. The IIF noted that, in 2005, the GCC's total export earnings exceeded those of Russia, India and Brazil combined. Despite projected significant

Chart 9-1  
GCC Shopping Center GLA  
1985-2010 (millions of square feet)

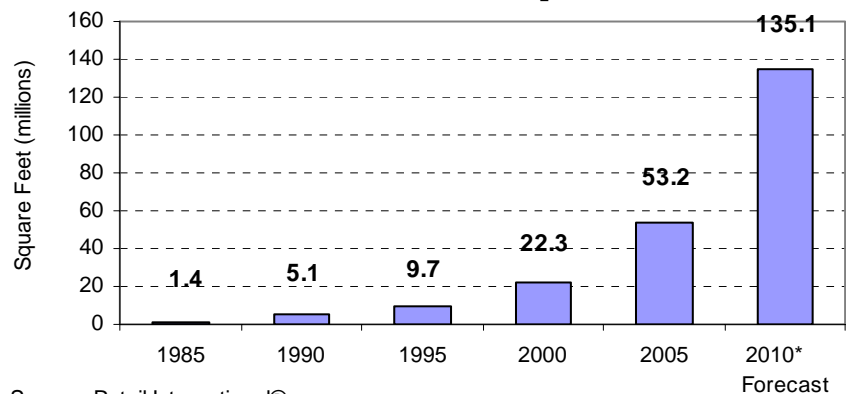
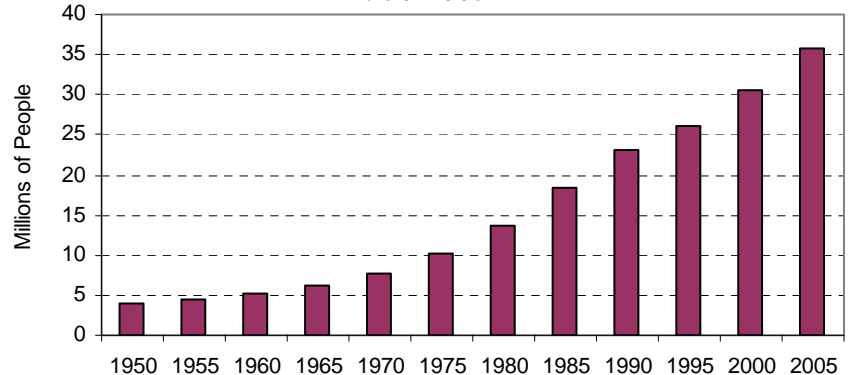


Chart 9-2  
GCC Population Growth  
1950-2005



\* Principal, Retail International®

<sup>1</sup> U.S. Department of Energy.

<sup>2</sup> *Business Intelligence Middle East* (Jan. 4, 2006).



increases in imports of consumer and capital goods, as well as increased outflows of workers' remittances, the current account balance for the GCC in 2006 is expected to show another record surplus of about US\$180 billion (equivalent to about 30% of GDP), in line with the expected outcome for 2005, it said. According to the IIF, the increase in foreign assets of the banking systems will make the GCC second only to China.

The bustling economy is translating into retail sales growth. In 2004, GCC retail sales were an estimated at US\$1600 per capita. (See Chart 9-3). This was higher than Russia, China, and India, but still far from the UK and US.

**Shopping Centers in the Region**

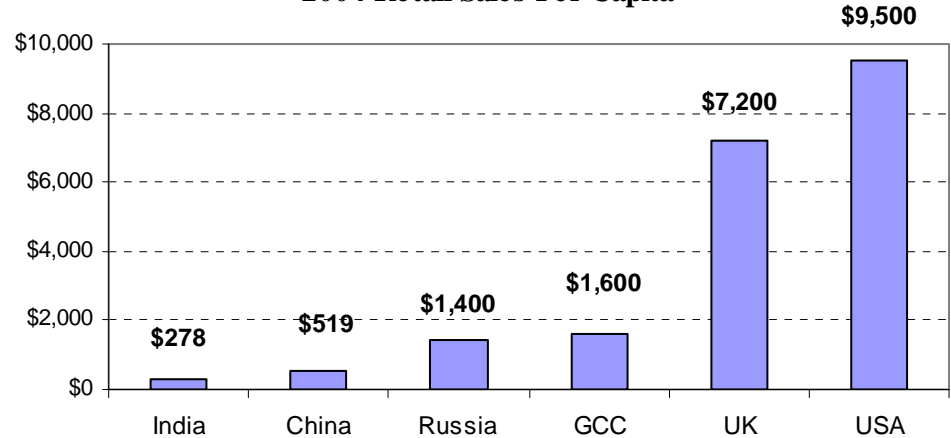
***Dubai—the Next Las Vegas***

The total value of construction projects at year-end 2005 is expected to top US\$300 billion across the region, a large chunk of which is going to be shopping centers and related retail – in Dubai (UAE). Desperate to re-brand itself as “Orlando-Vegas,” Dubai is in the process of accommodating a clutch of the world’s largest malls—if the hype is to be believed and competition from China permitting.

Already completed and opened in spring 2005 is Ibn Battuta Mall, a single level mall—straight-out of Las Vegas—project comprising some 1.5 million sf and, according to owners Nakheel, “to be doubled in size”. Next is the recently completed 2.4 million sf Mall of the Emirates. This is the latest project of Majid Al Futtaim Investments (‘MAFI’), which in 1995 developed the then-pioneering 1.7 million sf Deira City Centre in Dubai, until recently the largest and most successful mall in the Middle East.

Nearing completion is Dubai Festival City from the Abdulla Al Futtaim Group, said to be the largest privately funded project in Dubai. In reality this will be a virtual new town being built alongside Dubai’s famous Creek on a site of some 1,600 acres. The first retail section including the largest IKEA in the Middle East (approx. 275,000 sf), opened in the latter half of 2005. Total retail is said to comprise 2.7 million sf.<sup>3</sup>

**Chart 9-3  
2004 Retail Sales Per Capita**



Source: Retail International®

Coming up fast is The Dubai Mall being developed by Emaar Properties as part of the Burj Dubai project—destined to be the world’s tallest building at something over 2,300 ft. The Dubai Mall is reported to be some 3.8 million sf, and forecast to be complete by 2007.

However, all of these are destined to be overshadowed by the Mall of Arabia, being planned by I&M Galadari as an integral part of Dubailand, Dubai’s answer to Disneyland. The first phase alone is said to comprise 5.9 million sf, with 12 anchors. Opening is scheduled for 2008.

**The Rest of GCC Tries to Catch Up to Dubai**

By contrast to Dubai, the remainder of the Gulf and the region generally are still only in the evolutionary stage. The likes of Abu Dhabi (UAE), Doha (Qatar), Manama (Bahrain) and Kuwait all have projects or plans for projects that in some way will replicate what will have been completed in Dubai over the next few years—or sooner. Many projects will contain exotic features such as artificial islands or combine retail with villas and hotel resorts. Mostly these appear to be targeted at the well heeled from within the Gulf or further afield.

Abu Dhabi is busy with plans to catch up with its neighbor Dubai in the leisure/retail sector. Two significant projects—the completion of Phase Two of Marina Mall which will increase the GLA to around 1.6 million sf and the redevelopment of the 1 million sf old Souk—are both eagerly anticipated for 2006.

In Kuwait, developer Tamdeen is busily adding to their existing clutch of malls with the development of 360<sup>0</sup> Kuwait, Al Kout and Mall of Kuwait (1.4 million sf).

<sup>3</sup> For further reference see: Phil McArthur, “Retail Oasis: The Middle East Industry,” *Research Review*, Vol. 13 (No. 1), 2006, pp 41-43..



In Bahrain, MAFI is pressing ahead with the development of Bahrain City Centre. This center will be anchored by Carrefour and supported by department stores Debenhams and Saks Fifth Avenue. It is set to become that kingdom's largest retail complex at around 1.6 million sf when it opens in 2007.

Qatar will see the opening of the Italianate Le Villaggio Mall, also anchored by Carrefour, in time for the 2006 Asian Games. It will form part of the Khalifa Stadium complex where the games are being staged.

In Saudi Arabia and the Levant—the local term for the region including Syria, Lebanon, and Jordan—the profile of most shopping malls still adheres to a basic pattern of meeting the regular needs of an ever-expanding population with most malls anchored by a hypermarket.

United Properties, a joint venture between the local Savola Group and South Africa's Old Mutual Properties, is developing malls nation-wide with the first four of 14 projects worth more than US\$1 billion coming on-stream in 2006. These will include, in addition to the recently completed Azizia Mall in Riyadh, Jamea Mall Jeddah, Rimal Centre Riyadh, Roshan Mall Jeddah and Central Park Medina. All will be anchored by Savola's hypermarket brand—HyperPanda.

## Retailer Trends in the GCC

### *The Importance of Hypermarkets*

From the previously listed retail projects, there are some common format themes for regional malls in the Middle East. Invariably, these projects are anchored by a major hypermarket of 150,000-220,000 sf, typically one or other of the French majors Carrefour or Géant. In turn, they are supported by 200 or more predominantly international high street brands. Another necessity has become an increasingly large and exotic entertainment anchor, best typified by the 1,300 sf real snow indoor ski resort at Mall of the Emirates, Dubai.

Carrefour, reportedly turning over US\$1 billion dollars a year in the Middle East, is the current market leader, but is beginning to receive competition from Géant, a more recent arrival. These two French hypermarket brands, while continuing to expand across the region and into each other's markets, are not having it all their own way.

In 2006, Saudi-owned HyperPanda will enter the hypermarket battle of Dubai when it opens at Dubai Festival City. This is the first venture outside Saudi Arabia for this retail subsidiary of the Savola Group. As one of the Kingdom's leading conglomerates, it seems certain to be the precursor of many more. Another local brand, LuLu Hypermarket, part of the UAE's Emke Group with 46 outlets, is also expanding rapidly across the region, but typically in free-standing locations.

### *A Flood of International Brands*

The combination of a young, growing and affluent population is the ingredient for which all retailers crave. Furthermore, this scenario is overlaid with a significant population of well-heeled expatriates and a growing number of tourists. It is hardly surprising, therefore, that the opportunities the Middle East offered to retailers these days are taken rather more seriously in their boardrooms than was the case 10 years ago. Thus, the number of international retail brands represented has risen to well over 400 from less than 20 in 1985.

The well-trodden path for any non-indigenous retailer to gain entry to the high spending markets of the GCC is by granting a franchise to a local operator. While the rules on foreign ownership are being relaxed, franchising was adopted as the most suitable route for international brands to enter the Middle East at a time when foreign ownership was impossible. The results today serve to prove that this has been hugely successful for all concerned—so much so, that some of the largest retailers in the Middle East are franchisees operating a portfolio of a wide number of international brands. On the whole low-profile, and unknown to the wider public as a result of having no retail fascia of their own, these organizations and individuals have emerged as critical players in the entire Middle East retail and shopping centre development industry. No sensible mall developer will commence work without first having got at best a pre-let or, at worst, a nod of support from one or more of these key retailers. Some of these franchisees, such as M.H. Al Shaya Group and Al Hokair Group, of Kuwait and Saudi Arabia respectively, may even have overtaken in size the retailers from whom they franchise.

The Middle East has also proven to be a successful point of entry into overseas territory for a number of retailers, with two of the highest profile from the United Kingdom being Debenhams and Harvey Nichols. Both retailers entered the region with major department stores anchoring regional style malls, with Debenhams to Seef Mall in Bahrain and Harvey Nichols to Al Faisaliah in Riyadh, Saudi Arabia. Debenhams are now to be found across the region and elsewhere internationally. Meanwhile, Harvey Nichols will open its second department store in the Middle East in the first quarter of 2006 at the newly completed Mall of the Emirates, Dubai. Another Harvey Nichols is planned for Istanbul.

Dubai, hardly surprisingly in view of the phenomenal real estate activity currently underway, is also the critical entry point into the Middle East for most new retailers. The tally of international franchised brands is set to continue. A recent coup—for Al Shaya Group—is Boots, the United Kingdom's best-known high street pharmacy. Rumored to have been considering the Middle East for



years, their decision may well have been hastened with the arrival in 2005 in Dubai of the Hong Kong-owned Watsons and stablemate of Boots's archrival Superdrug. According to Retail Week<sup>4</sup>, Boots plans to open 200 stores across the Middle East in the next five years – initially in Kuwait, with Dubai and Turkey “in the cards.”

Besides the full gamut of North American fast food brands, U.S. visitors will feel at home with the presence of the likes of Saks Fifth Avenue, Kenneth Cole, Forever 21, Levi's and many more. And those from continental Europe include Benetton, Mango, Mexx and Zara, among others.

Sweden's H&M (Hennes & Mauritz), which also has joined forces with Al Shaya Group in yet another “coup” for the Kuwaiti company, will join these familiar names later this year (2006). This highly sought after fashion retailer is known to have rejected many previous approaches from the Middle East, as it does not normally franchise. This latest move, therefore, is something of a landmark deal and, as if to underline the point, it was reported<sup>5</sup> to stress that franchising was not part of its expansion plans in any other areas of the world. This does, however, speak volumes of the current strength and outlook of the Middle East retail market.

Some of the largest master franchisees operating cross-border brands in the Gulf are now extending their presence beyond the Gulf—not only to the Levant but also to Turkey, Russia and India as well. Local developers also are looking ever further afield. Dubai-based companies such as Emaar Properties plan to invest US\$4 billion to develop 100 shopping malls in the Middle East and on the North Africa and Indian sub-continent, and Dubai International Properties is developing projects in Doha, Istanbul and elsewhere. Thus, the considerable expertise and experience gained from Dubai is being made available to these less-developed retail markets.

### Future Opportunities in Iran and Iraq

“Below the horizon,” much groundwork is being done in Iran and Iraq. Historic trading ties link Iran and the Gulf with many wealthy Iranians living in Dubai, and by many Bahrainis who have family relatives in Iran.

Recent reports of a US\$300 million project to develop ‘Dream City’ in Iraq have surfaced. Apparently, it is an ambitious plan to build a shopping mall and 1,200 luxury homes on the outskirts of Irbil—one of the boom towns in the Kurdish region of Iraq.

Furthermore, Iraq Duty Free has seen its sales double in the past 12 months to US\$12 million in 2005 and is launching a major new perfume outlet called Paris Boutique later in 2006. This will be followed by domestic retail outlets under its sister company ‘Lead Stay–Iraq,’ the first of 2,152 sf in downtown Baghdad.

Iraq and Iran with their huge oil reserves and underdeveloped markets hold out the prospect of profitable new opportunities for Gulf-based developers and retailers enjoying long-established trading and family links with those sometimes volatile countries.

### Final Thoughts

It is apparent that despite the “bad press” the Middle East region often gets in the west, there is far more of a positive nature going on than the casual observer might assume. Not least of all is the tremendous growth in the retail and shopping center industry. This provides a significant contribution to the economy of the region, providing much employment for nationals of both sexes, where none may otherwise be available, as well as for a vast array of expatriate labor.

In a region still heavily reliant on imported goods, the contribution made to the world economy by the small Gulf countries far outweighs their size. Overlay this with the cross fertilization of ideas and cultures brought about by the many nationalities represented—not only generally but also in the retail sector—serves to underscore the important role the shopping center industry—almost by default—is playing in creating greater understanding and tolerance in a region perceived as always being in turmoil.

The recent deals struck by M.H. Al Shaya Group to bring two more of Europe's leading retailers to the Middle East serve to illustrate just how far this region is emerging as a single market, and that the US\$100 billion tag is far more than just a fantasy.

<sup>4</sup> Nancy Wainscot, “Boots Kick-Starts Its Push Into Middle East,” *Retail Week*, Jan. 27, 2006, p. 2.

<sup>5</sup> Emma Vickers, “H&M's U.K. Sales Beat Sweden,” *Retail Week*, Feb. 3, 2006, p. 10.



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