

Sectoral Report

DUBAI Retailing

January 2019

Economic Research Department
Dubai Chamber of Commerce and Industry

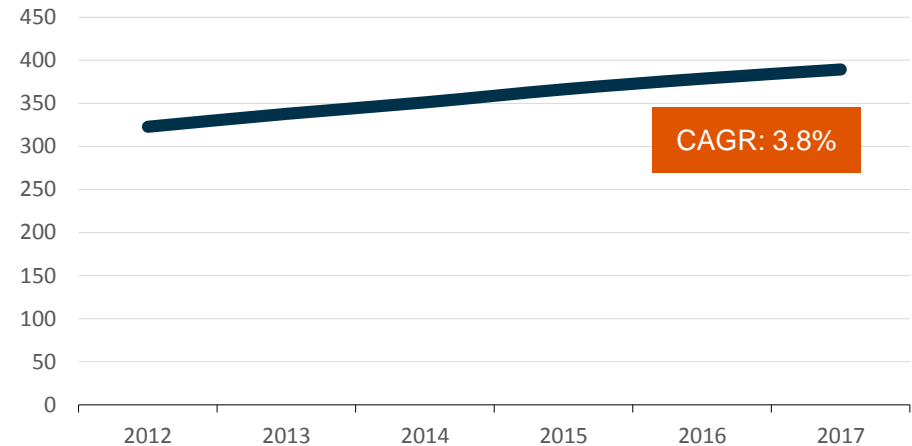


I. Overview

Dubai Economy

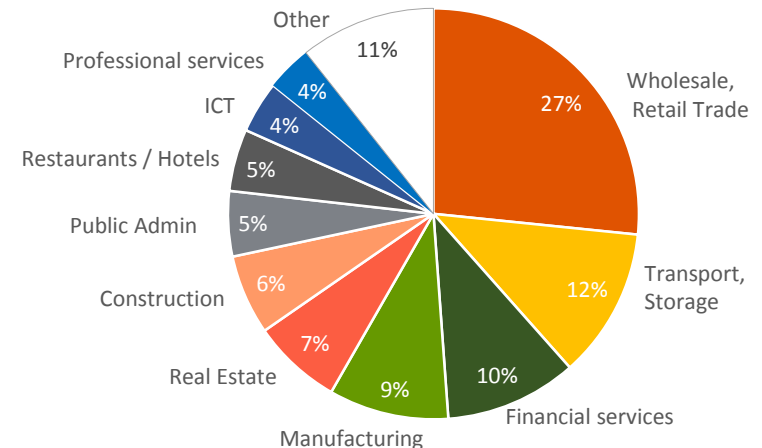
- Dubai's real GDP is estimated at AED389.4bn (\$106.1bn) for 2017. Over the period 2012-2017, the economy has effectively maintained growth at a compound annual growth rate (CAGR) of 3.8%.
- The latest data from the IMF indicate that Dubai's economic growth is estimated at 2.8% for 2018, and is projected to increase to 3.7% in 2019 on the back of higher government investment in the run-up to EXPO2020, along with the overall improvement in regional macro-economic conditions.
- Dubai's economy is well diversified across 10 major economic sectors, among others, namely:
 - ✓ **Wholesale and retail trade (27%)**
 - ✓ Transport and storage (12%)
 - ✓ Financial services (10%)
 - ✓ Manufacturing (9%)
 - ✓ Real Estate (7%)
 - ✓ Construction (6%)
 - ✓ Public administration (5%)
 - ✓ Hospitality (5%)
 - ✓ ICT (4%)
 - ✓ Professional services (4%)

Dubai GDP Performance (AED bn)



Source: Dubai Chamber, Dubai Statistics Center

Sectors' contribution to Dubai GDP - 2017



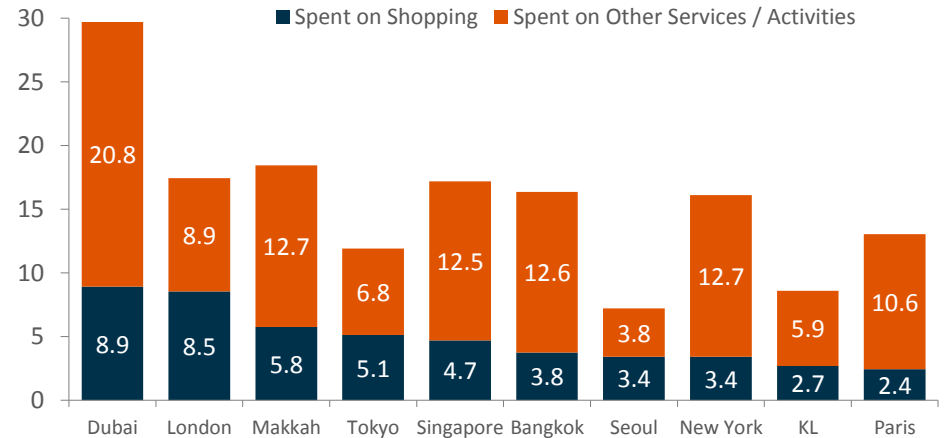
Source: Dubai Chamber, Dubai Statistics Center

I. Overview

Tourism Hub Status

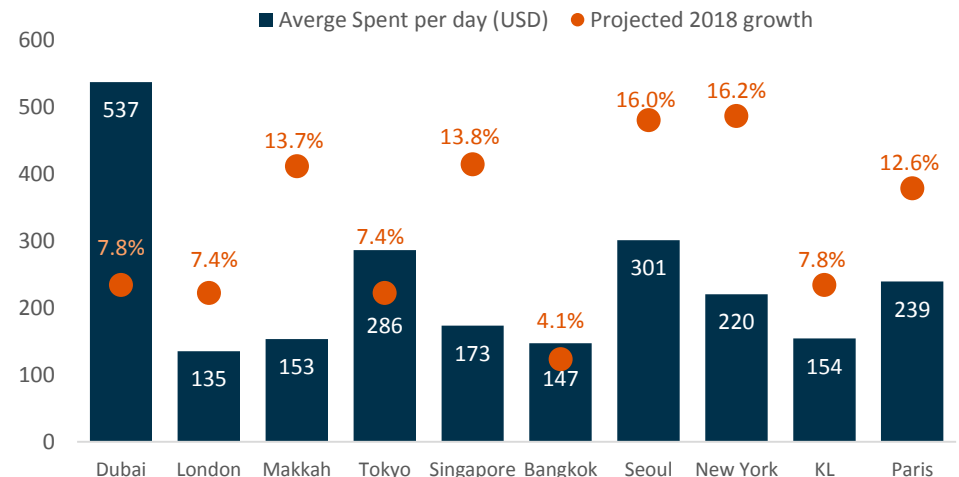
- As a global leisure and business tourism hub, Dubai welcomed 15.79 million overnight visitors in 2017, and is estimated to have attracted nearly 17 million tourists in 2018 on the back of easing visa requirements for tourists hailing from a number of source countries, particularly China and Russia.
- According to Mastercard’s Global Destination Cities Index 2018, which assessed 162 cities, Dubai came on top of the list of the world’s most visited cities in terms of tourists spending.
- Out of the \$29.7bn spent by international overnight visitors in Dubai during 2017, \$8.9bn was spent on shopping – an amount higher than what was spent on shopping in New York, Kuala Lumpur, and Paris, combined.
- Dubai also leads globally in terms of daily overall spending (i.e. shopping and other services/activities) averaging \$537 a day per tourist in 2017, an amount that is estimated to have increased by 7.8% in 2018, to reach \$579 a day per tourist.

International overnight visitors’ spent in 2017 (USD bn)



Source: Dubai Chamber, MasterCard 2018

Daily spending by international visitors in 2017 (USD)



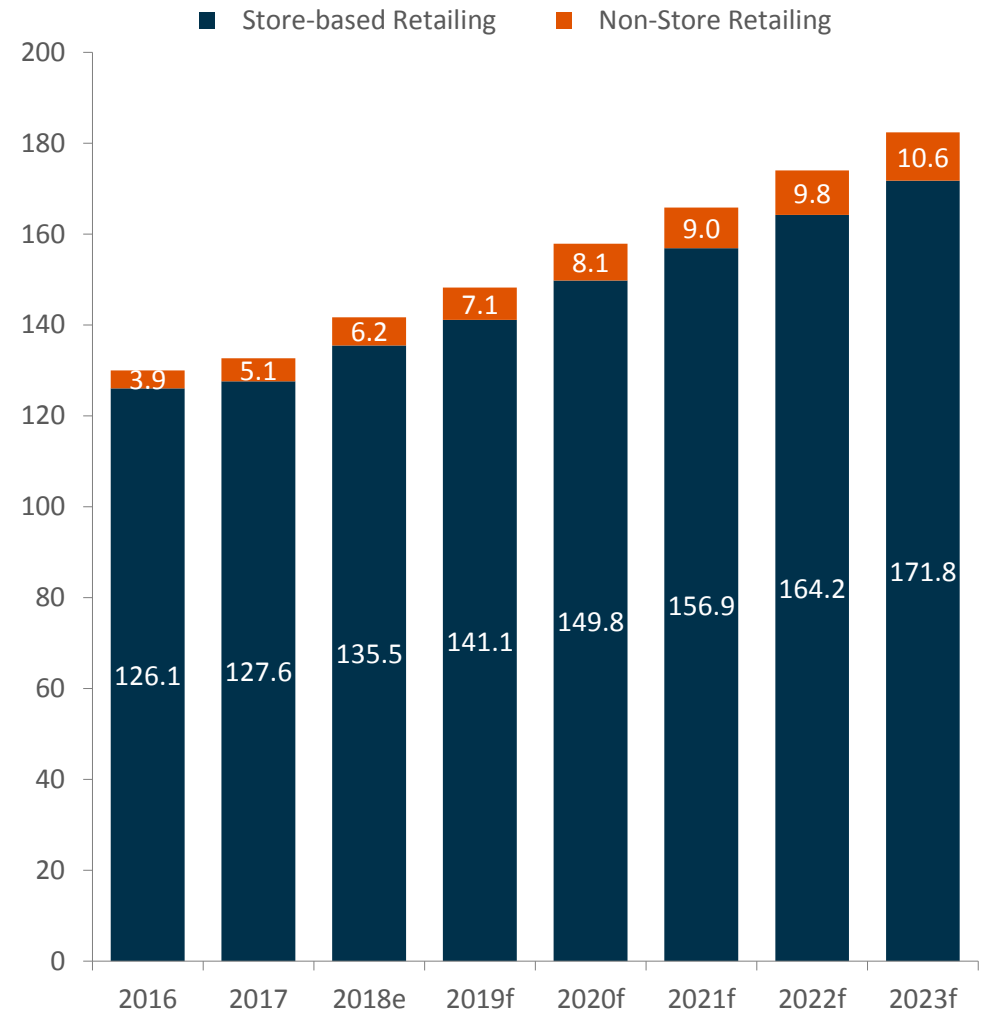
Source: Dubai Chamber, MasterCard 2018

II. Dubai Retailing

Market size and performance

- DCCI analysis – based on the latest data from Euromonitor International – indicates that Dubai's retailing activity has generated AED142bn in sales during 2018, after realizing 6.8% year-on-year growth.
- Store-based retailing remains the main platform for sales with a share of 95%, while non-store retailing, mainly in the form of internet retailing, keeps expanding its share at an increasingly fast pace.
- The impact of VAT, which got implemented in January 2018, was largely offset by the softening residential rents, which helped Dubai's population retain its purchasing power. Additionally, the higher frequency of mega-sales events and shopping festivals helped stimulate demand in the emirate.
- Supported by the expected tailwinds from EXPO2020, rising tourists' numbers, the recovery in oil prices and the consequent improvement in the GCC economies, along with the expected continuation of mega-sales events, the market carries a positive outlook, with medium-term growth forecast at a CAGR of 5.2% (or 3.0% when adjusted for inflation) until 2023.

Dubai retail market size (AED bn)



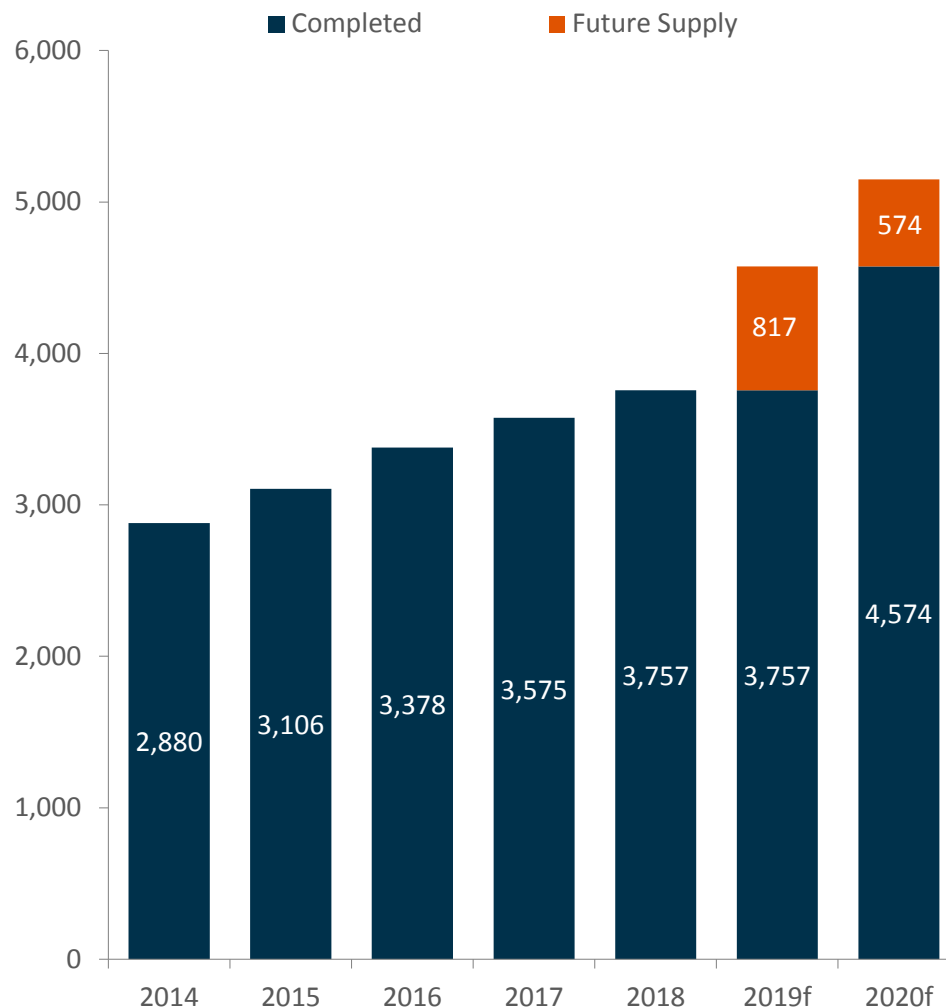
Source: Dubai Chamber, Euromonitor

II. Dubai Retailing

Retail space supply

- According to the latest figures from JLL, around 182,000 sq m of retail Gross Leasable Area (GLA) entered Dubai retail market during 2018, which is higher than the 158,000 sq m averaged over the past 5 years.
- Notable additions in 2018 include projects such as “The Pointe”, and the 2nd phase of “Al Seef”, bringing a cumulative 102,000 sq m of retail GLA. As a result, Dubai’s total mall-based retail stock rose to 3.75 million sq m.
- There is an estimated 1.3 million sq m of retail GLA expected to be delivered by 2020, eventually bringing the city’s total stock to 5.1 million sq m. Major projects expected to be delivered in this period include Nakheel Mall, on the Palm, Dubai Hills Mall and Deira Islands.
- The upcoming supplies are expected to keep pressure on retail space rents in primary and secondary malls. Thus, retailers are likely to be able to benefit from favorable lease terms and help lower their overall cost of doing business in the city.

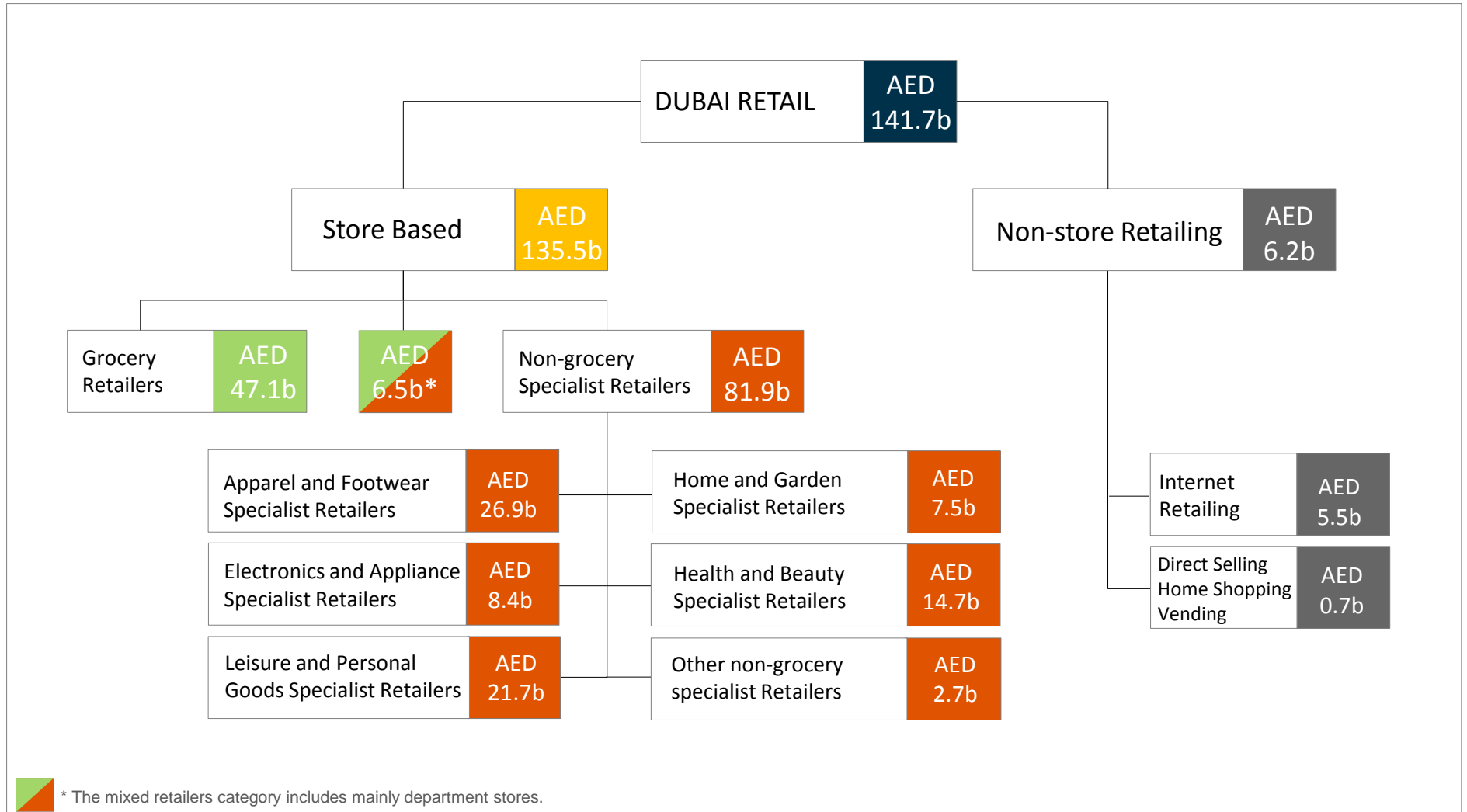
Dubai retail space supply (GLA 000's sq m)



Source: Dubai Chamber, JLL

II. Dubai Retailing

Market composition - 2018



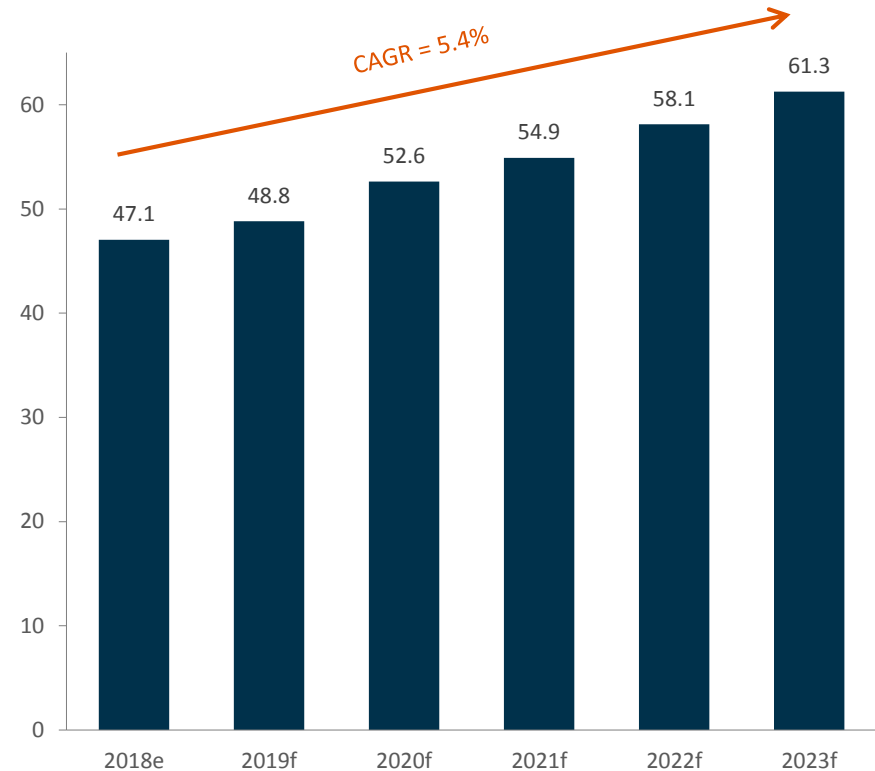
Source: Dubai Chamber, Euromonitor

III. Key Trends and Outlook

1. Grocery Retailers

- Dubai’s grocery retailers generated an estimated AED47.1b in sales during 2018 after launching a record number of sales promotions throughout the year, which helped boost consumer confidence and spending.
- Despite the implementation of VAT, many hypermarkets (the largest grocery retail channel) managed to keep their prices competitive enough to help offset the VAT amount. For instance, a leading chain was able to avoid price increases on 40% of its stock by renegotiating with its suppliers. Other hypermarkets focused on getting leaner procurement, transport, and warehousing to cut their costs, often with the use of digital technologies.
- Smaller retailers, such as convenience stores, continued attracting consumers by enhancing their customer service with extended opening hours, along with the provision of delivery both in conventional form and through the use of grocery delivery apps. Moreover, the apps are also being used to highlight sales promotions, similar to larger hypermarkets.
- In line with the government’s “Smart City” initiatives, Dubai metro cards (NoI) started being accepted to buy groceries at major grocery retailers (Carrefour, Lulu).

Dubai Grocery Retailers’ Sales (AED bn)



Source: Dubai Chamber, Euromonitor

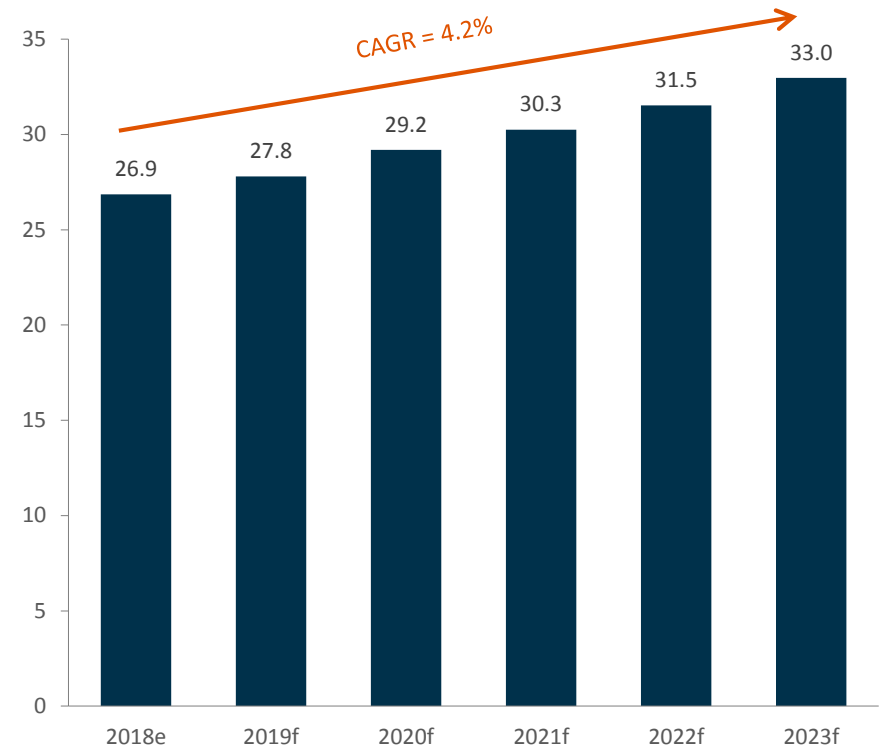
- Grocery retailers’ sales in Dubai are set to see growth at a CAGR of 5.4% over the forecast period, to reach AED61.3b in 2023.

III. Key Trends and Outlook

2. Apparel and Footwear Specialist Retailers

- Dubai’s apparel and footwear specialist retailers generated an estimated AED26.9b in sales during 2018 after realizing 3% growth y-o-y.
- Fashion Avenue, which came as a 1 million sq. foot extension to Dubai Mall, was one of the main highlights of 2018. It is expected to be home to 150 luxury brands in the coming months, with brands such as Rolex and Dior having already secured their spots.
- One of the major themes in luxury retail is offering limited-edition pieces that are exclusive to the region, such as the TODS’ 7-piece footwear collection, which reflects the UAE’s 7 emirates.
- Nevertheless, going forward, as the luxury segment approaches maturity, industry analysts expect that upcoming shopping centers are likely to attract more midrange and premium fashion brands to compensate for the impact that the challenging global macro-economic conditions are having on the luxury segment sales. Additionally, this shift will also cater to the fact that Dubai is becoming more accessible to mid-income tourists through the growing number of routes and increasing frequency of flights.

Dubai Apparel and Footwear Specialists’ Sales (AED bn)



Source: Dubai Chamber, Euromonitor

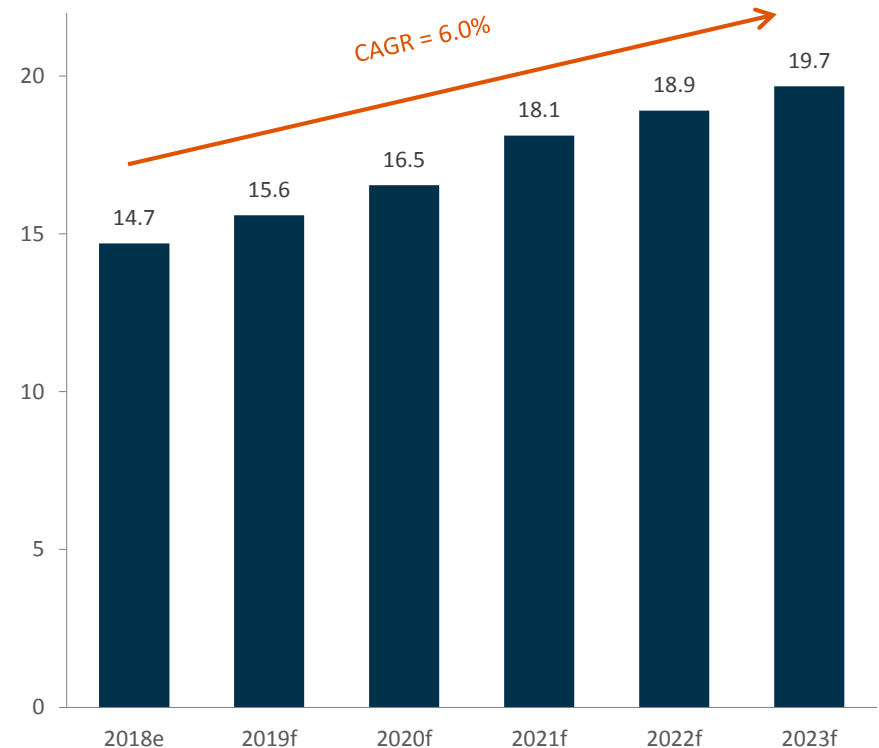
- Sales of apparel and footwear specialist retailers in Dubai are set to see growth at a CAGR of 4.2% over the 5-years forecast period, to reach AED33.0b in 2023.

III. Key Trends and Outlook

3. Health and Beauty Specialist Retailers

- Dubai's health and beauty specialist retailers finished 2018 on a strong note, generating an estimated AED14.7b in sales after realizing 9% growth y-o-y.
- A major trend seen in the market is how consumers - particularly millennials and younger generations - are more than ever viewing beauty products from the perspective of health instead of seeing them as a temporary cover to imperfections. As a result they pay more attention to the prevention of flaws, and hence, they are more willing to try new products, particularly those containing natural and organic ingredients (such as olive oil, and pomegranate). The concept of natural skin-care and beauty products, while dominated by premium products, is now seeing adoption in the mass-products segment.
- Some brands have launched digital campaigns on social media platforms that include beauty (i.e. make up or skin care) tutorials presented by celebrities and influencers, and the use of such method has benefited in boosting their sales. It is also worth noting that local brands, particularly in fragrance, enjoyed strong growth in 2018 and kept threatening well established brands.

Dubai Health and Beauty Specialists' Sales (AED bn)



Source: Dubai Chamber, Euromonitor

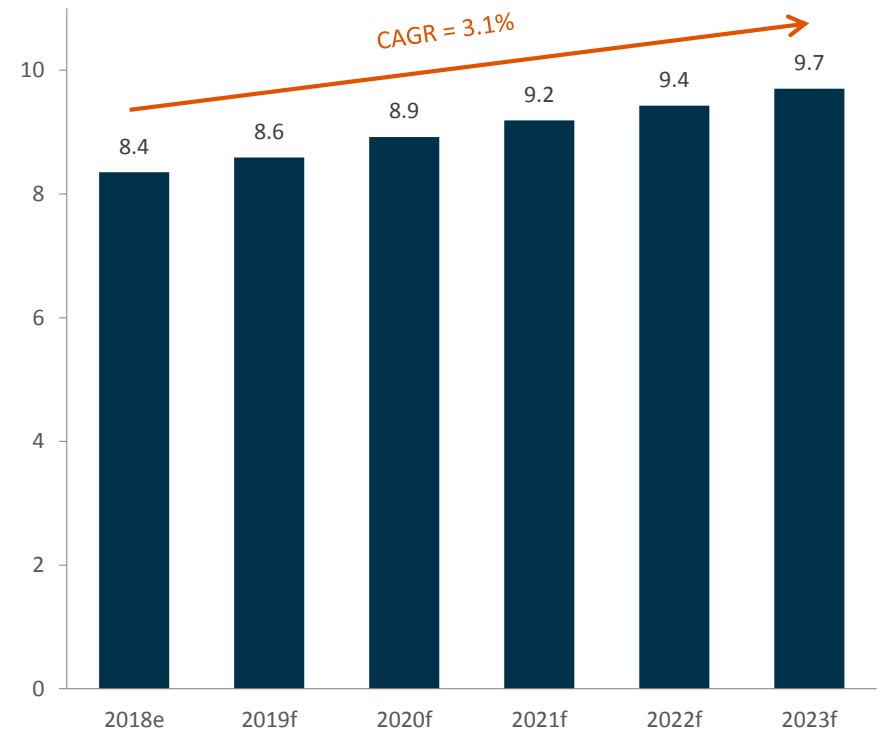
- Sales of health and beauty specialist retailers in Dubai are set to see growth at a CAGR of 6.0% over the forecast period, to reach AED19.7b in 2023.

III. Key Trends and Outlook

4. Electronics and Appliances Specialist Retailers

- Dubai's electronics and appliances specialist retailers generated an estimated AED8.4b in sales during 2018 after realizing 4% growth y-o-y.
- After having a very challenging year, back in 2017, due to the pressure exerted on their sales by online retailers specialist electronics and appliances retailers got back in the game during 2018 with numerous promotions that helped funnel customers back into their stores. To help attract bargain-hunters most stores in Dubai complemented their sales events with raffles, and vouchers.
- Some specialist retailers in Dubai are also using in-store-WIFI to allow their customers read online reviews of the products, particularly high-value electronics and appliances, which helps give customers more confidence about their purchases.
- The recent implementation of VAT refund for tourists towards the end of 2018 helps strengthen the outlook for retailing in Dubai overall, and particularly for the specialist retailers segment, as a large chunk of their sales stems from tourists, who often are more price sensitive than residents.

Dubai Electronics and Appliances Specialists' Sales (AED bn)



Source: Dubai Chamber, Euromonitor

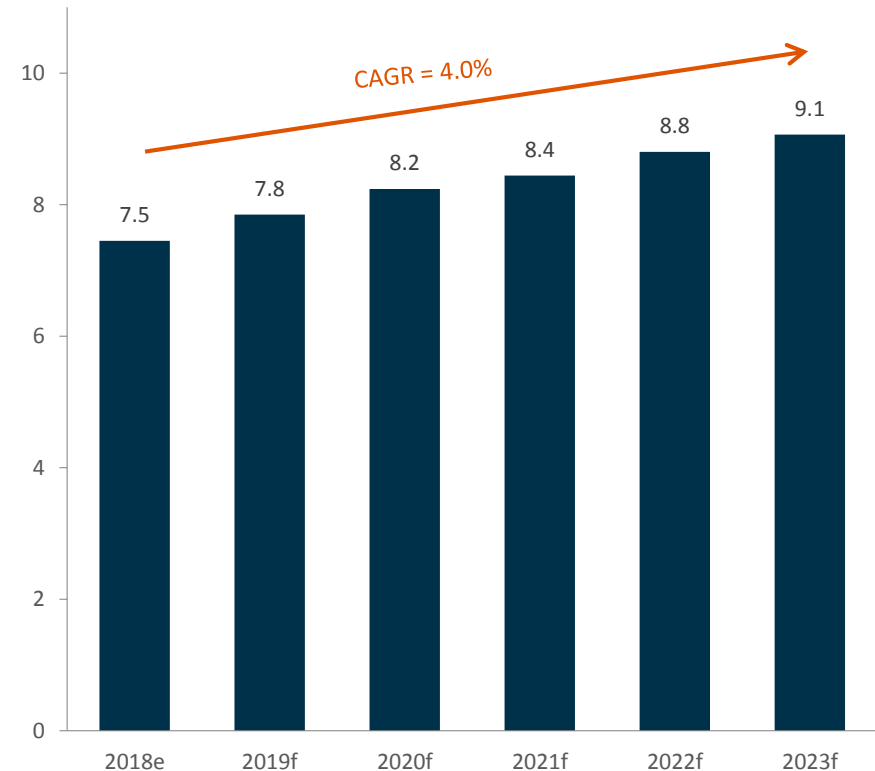
- Sales of Dubai's electronics and appliances specialist retailers are set to see growth at a CAGR of 3.1% over the forecast period, to reach AED9.7b in 2023.

III. Key Trends and Outlook

5. Home and Garden Specialist Retailers

- Dubai's home and garden specialist retailers generated an estimated AED7.5b in sales during 2018 after realizing 7% growth y-o-y.
- As residential and commercial rents kept softening in 2018, many consumers saw an opportunity to save on rent by moving, which has stimulated demand for office and residential furniture. Most home and garden specialist retailers rode this trend and further stimulated demand by launching promotion campaigns and participating in mega sales events, offering price discounts that reached up to 50% in the home furnishing segment, which helped stimulate demand further.
- Additionally, specialist retailers started providing free home delivery with big-ticket purchases, and improved their online web-stores which increased market visibility, and led to more online orders and in-store purchases.
- Sales in the homewares segment did not perform as well as home furnishing, due to the intense competition specialist retailers faced from hypermarkets, which offered more value items.

Dubai Home and Garden Specialists' Sales (AED bn)



Source: Dubai Chamber, Euromonitor

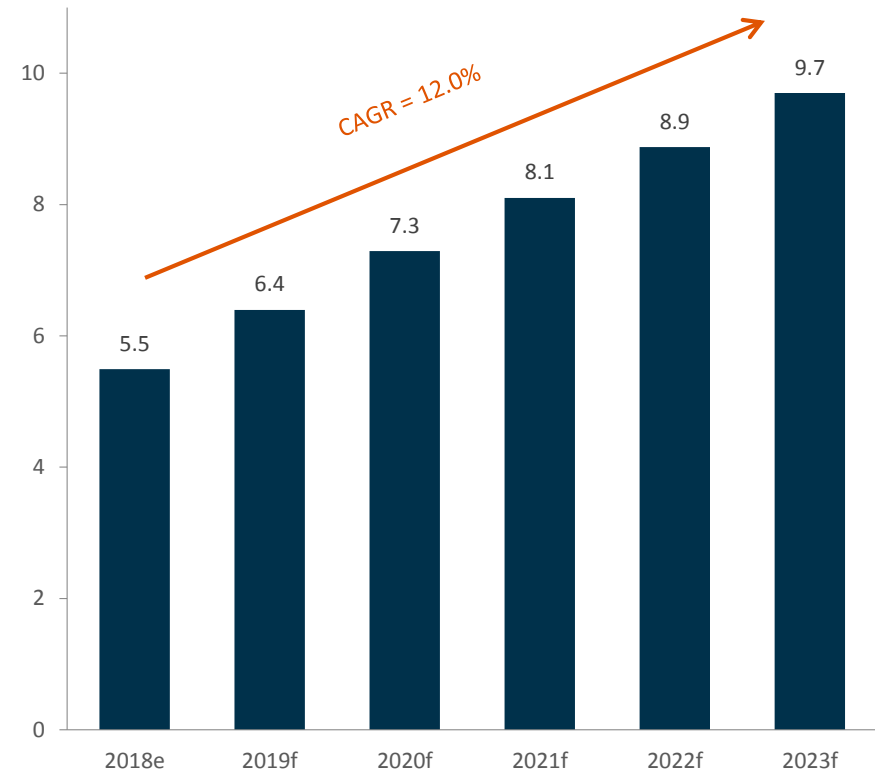
- Sales of home and garden specialist retailers in Dubai are set to see growth at a CAGR of 4.0% over the forecast period, to reach AED9.1b in 2023.

III. Key Trends and Outlook

6. Internet Retailing

- Internet retailing covers sales of pure e-commerce retailers (ex: Souq, Noon) and sales from websites operated by store-based retailers.
- Dubai’s internet retailing activity generated an estimated AED5.5b in sales during 2018 after realizing 19% growth y-o-y.
- Key drivers of e-commerce in Dubai include strong government support, in line with its commitment to transform Dubai into the world’s smartest city. E-commerce has also received a boost from the high mobile penetration rate in the city, along with Dubai’s expanding logistics networks.
- E-commerce has also taken part of the overall retail industry’s “mega-sales and aggressive campaigns” theme of 2018, with leading internet retailers in Dubai throwing deep discounts during events such as “White Friday”, and “Digital Monday”.
- Internet retailing made up around 4% of Dubai’s total retail sales in 2018, which is below the global average, leaving plenty of potential for growth.

Dubai Internet Retailing Sales (AED bn)



Source: Dubai Chamber, Euromonitor

- Sales of Dubai’s internet retailers are set to see growth at a CAGR of 12.0% over the forecast period, to reach AED9.7b in 2023.



References

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