Dubai Mall sees a remarkable share of new openings.

UAE Retail Rebounds, Construction Lags Behind

The UAE economy has benefited from a diversion of investments during the political crises in neighbouring countries, but how safe is the private sector from the impact of the global slowdown? We take a closer look at shifting developments within the retail and construction industries.

HEBA HASHEM

Priorities have been slowly changing for UAE retailers. Until recently, most retailers opened outlets in any available space without considering the market position, mall location, or adjacent facilities. As a consequence, several were forced to shut down.

In January 2011, French retailer Auchan closed its DragonMart hypermarket, while luxury brand owner BinHendi Enterprises closed its avenue in Deira City Centre, as most affluent consumers prefer to shop in the newer more upmarket malls.

"Retailers are now focusing on their market share and are being highly selective when opening new stores", says Stuart Gissing, regional director at Colliers International. However, the decline in demand growth hasn't stopped international players from entering the local market; neither has it affected expansion plans for local retailers.

GATEWAY FOR FOREIGN BRANDS

The image-conscious country continues to lure western retailers, who see the gulf nation as a gateway to the Middle Eastern market. In fact, the UAE is listed in the top ten countries for retailers to expand into, according to AT Kearney's 2011 Retail Global Expansion report.

The last month alone saw a remarkable line-up of openings, and Dubai Mall appears to be getting the lion's share. To name a few, fashion brand Tony Burch, Millions of Milkshakes, and Virgin Megastore's eighth UAE store. "More than 90% of the leading retail brands have a presence in the UAE market", says Michaella Black, project manager at InRetail Summit 2011.

Meanwhile, UAE retail giant Landmark Group is preparing to open 200 stores across the region in the next twelve months, 25 will be in the UAE. Among its best-performing brands are those selling value goods, including Maxx, Splash, Baby Shop and Home Centre.

"We think the market is growing in the value segment; necessities are doing very well for us", Vipen Sethi, CEO at Landmark Group, said at a recent conference in Dubai. In the fiscal year ending June 2011, Landmark's retail arms recorded an impressive growth of 24%.

Rivoli Group, known for selling branded watches like Tissot, Burberry, and Cartier, has similarly reported higher profits, up about 10% this year. "We've had a very robust year so far", Ramesh Prabhakar, managing partner at Rivoli, said.

Strong sales were also reported by Porsche Dubai, which delivered 211 vehicles to customers in September, the highest performance for any Porsche showroom globally. In the first half of the year its deliveries were 46% higher than in the same period last year, with Porsche Cayenne remaining the top seller for the brand, accounting for 26% of all deliveries.

SOARING RENTS THREATENS RETAIL

Current occupancy levels at the emirate's major shopping malls are running at nearly 95%, driving Dubai to a per capita gross leasable area of 11 square feet. Unless there is a major increase in the population in the next five years, it would be irrational to create more space.

Besides saturation, retailers face soaring rents in popular commercial districts and mega malls, and smaller firms in particular are at risk of being squeezed out. "Dubai remains one of the highest costs to retail within the GCC and the regional market", says Gissing. "Many malls and developers are still reluctant to take on a new product that is not perceived as mainstream and widely recognized. This situation will suppress smaller brands and more entrepreneurial outlets from flourishing".

A spokesperson for UAE electronics retailer Sharaf DG said they had seen rents in prime locations increase by 10 to 15% every year. French hypermarket Geant acknowledged the dilemma, saying that plans to develop a series of smaller stores largely depended on whether high rental rates could be offset by sales.

THE DAYS OF MEGA MALLS ARE OVER

On the other hand, research done by Cityscape Global stated that no significant mall space was completed in the second quarter of 2011, with total supply expected to reach 2.58mn square metres by end of the year, a number that may not increase until 2014.

The over-capacity in larger malls is likely to steer retailers to look at smaller, mid-market shopping malls. In August, Nakheel said it would press ahead with the building of retail outlets in Jumeirah Park and Discovery Gardens, and may build up to five community malls across the emirate.

CONSTRUCTION WOES ON THE RISE

Unlike the retail industry, which is finding ways out by re-aligning its strategies, much of the construction business in the UAE is tied up with real estate- a market that is already suffering.

The amount of construction projects cancelled and delayed in the UAE is said to have risen to 624.36 billion dirhams in August, accounting for 56% of all cancelled and deferred projects in the main regional markets, a Citigroup report stated. "Unsurprisingly, cancellations in the UAE relate predominantly to real estate," the report said.

Infinity Tower, a twisted 73-storey skyscraper in Dubai Marina initially scheduled for completion in 2008, is now targeted for the end of 2012. In Jumeirah Lake Towers, Wind Towers 1 and 2 were projected to be ready by the end of 2008, but today stand unfinished halfway, with no completion date announced.

SHIFTING TO INFRASTRUCTURE

"There is a big shift away from real estate projects into infrastructure", explains Craig Plum, head of research at Jones Lang LaSalle MENA. This means the real estate market is becoming less attractive for contractors, who are refocusing on more promising infrastructure, whether it's in power stations, nuclear power or railway lines.

One of the few local construction firms considering large orders is Drake & Scull International (DSI), with eyes on 3.5 billion dirhams worth of new contract wins before the year-end, taking its order book to 10 billion dirhams. The company's backlog in the second quarter reached a record high of 7.5 billion dirhams, a 56 % increase compared to the same period last year.

"Dubai should be able to roll over debt that is maturing in 2012. However, the uncertain climate may mean that investors are less willing to invest in long-term debt," the Economist Intelligence Unit's Edward Bell said. "Nevertheless, even if Dubai cannot roll over its debt, we believe Abu Dhabi will step in with financial assistance if necessary."

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Commercial office buildings are seen under construction at Business Bay in Dubai, United Arab Emirates.

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