
OUTLET MALLS ON THE HORIZON—A VIEW FROM THE MIDDLE EAST

By Simon Thomson CRE; FRICS

ABOUT THE AUTHORS

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The shopping center market in The Arabian Gulf Co-Operation Council member states (Bahrain, Kuwait, Oman, Saudi Arabia, Qatar, and United Arab Emirates) has reached a level of maturity that is commensurate with the U.S. and European Union. So much so that clearly defined sub markets are now emerging. These are about to be joined by another exciting concept new to the Middle East, the outlet mall.

REGIONAL CENTERS

At the top end of the scale are the major regional department store anchored speciality centers such as Al Faisaliah and Kingdom Mall in Riyadh, Al Rashid Mall in Al Khobar, New BurJuman and Wafi Mall in Dubai, and Seef Mall in Bahrain.

HYPERMARKETS

Next come the hypermarket/supermarket-anchored centers typified by the City Centre format of the Majid Al Futtaim Group of Dubai and Carrefour of France and now being joined by Géant-owned by Casino also from France and Fu-Com of Bahrain in the Gulf. These centers range to up to 130,000 sq m (approx. 1,400,000 sq ft).

"STRIP" CENTERS

A third category comprises smaller centers typically in the 7,500 sq m (approx. 81,000 sq ft) to 15,000 sq m (approx. 161,000 sq ft) GLA range. These may well be of high quality but without any significant department store or big box-type anchor. Usually located in strip type locations such as Jumeirah Beach Road, Dubai; Qurum, Muscat; and Olaya, Riyadh, these centers provide a modern high street-type speciality offer.

MIXED-USE CENTERS

An increasingly important category embraces a broad range of mixed use projects in which retail plays a significant role. This may take the form of overall space such as Al Ghurair City, Dubai and in others where the shopping center provides a key critical component element to the success of the overall scheme. In the former both elements—retail and non-retail—in effect become 'mutual anchors' of the scheme, while in the latter the non-retail will assume many of the facets of an anchor. These typically will comprise a substantial residential and/or office content that have the effect of generating regular footfall from a virtually 'tied' audience.

Existing examples include Emirates Towers Boulevard, Dubai and Fotouh Al Khair Centre and Abu Dhabi Mall in Abu Dhabi. It is over the next few years, however, that significant projects of this type will be completed. In Dubai these will include Dubai Marina, Festival City and Palm Islands. In Cairo, Stars City, in Kuwait the Millennium Waterfront, and in Bahrain the Amwaj Island and Durrat Al-Bahrain projects. These are significant projects in international terms with the Dubai Festival City, providing 248,000 sq metres

(approx. 2,668,500 sq ft) of retail and occupying a site of 1,200 acres.

AIRPORT AND RAILWAY RETAILING

The duty-free reputation of the Gulf's leading airports is legendary; however, the overall retail offer

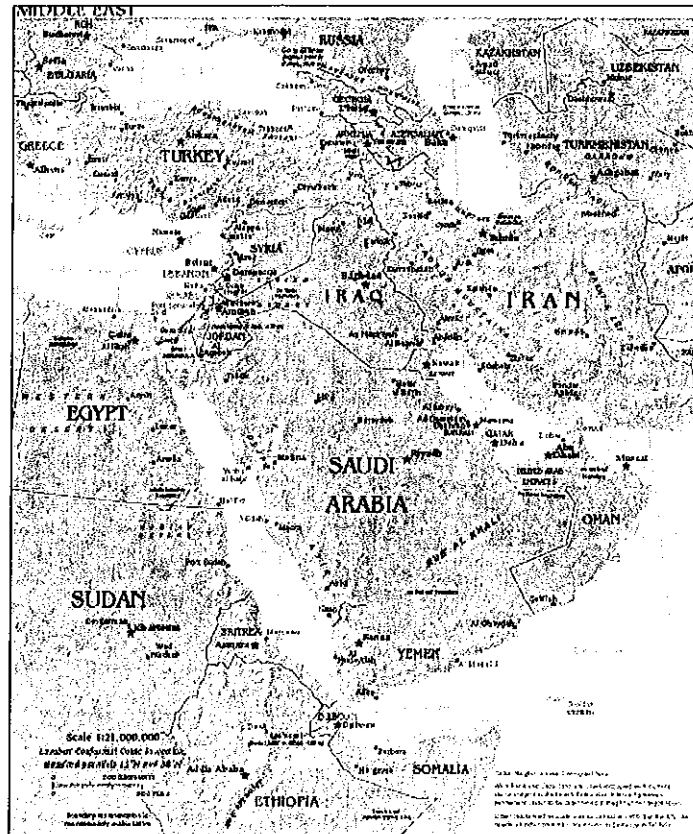
has failed to keep pace with other leading world class airports. The opening of the new terminal in Dubai and development of another this year coupled with others under redevelopment across the Middle East will present an unrivaled opportunity, enhanced by privatization, to create an airport retail offer representative of the range and quality available in the region's leading malls. So far, airport retailing has mostly been confined to air-side duty free. The opportunities for the development of landside shopping to include convenience and supermarket shopping for arriving pas-

sengers, airport staff and other non-travelling visitors are open to be exploited.

The recent announcement that construction will start this year on the first phase of a public transport railway system in Dubai with the main rail station located near the Municipality HQ will be the focal point of new development including shopping malls, theatres and cinemas. Once again Dubai will be setting the trend for others in the region to emulate in future years.

OUTLET MALLS

All of this retail space—some 6.5 million sq meters (70,000,000 sq ft) Gross Leasable Area ('GLA') in modern shopping centers across the region by 2005—estimated by Retail International—with some 250 cross border brands, is generating an



urgent requirement for the development and provision of outlet malls.

These shopping centers offer a combination of famous brands at discount prices often incorporating leisure activities in an exciting environment targeted at visitors of all ages. Such centers not only appeal to bargain hunters but also provide a convenient outlet for retailers to shift slow-selling merchandise, facilitating frequent turnover of stock and a constantly refreshed image.

Several developers in the region are known to be planning a series of outlet malls across the Middle East with details soon to be announced.

In Europe market leaders include Freeport and McArthurGlen with, in North America, The Mills Corporation, now also moving into Europe.

In the U.S. such centers are typically well over 100,000 sq meters (approx. 1,100,000 sq ft) GLA and require a catchment population in excess of 500,000 within a ten to fifteen minutes drive.

In Europe outlet centers may be much smaller with 25,000 sq meters (say 270,000-sq ft) GLA typical but the trend toward U.S. dimensions is growing. Apart from quality and value an ingredient essential for the success of any such center is acres of car parking often averaging at the ratio of 1 car space per 10 sq meters or around 100 sq ft GLA.

RENTAL VALUES

The Middle East is no different from many other multinational markets with a wide disparity of rental values across the region. The issue can be clouded too by the payment of "key" money or premium by tenants to secure shop units in particularly sought after locations. This is particularly prevalent in Kuwait where at one time a secondary market developed in trading vacant shop units as a commodity rather than for normal retail purposes.

In more recent years with the ever-increasing sophistication of shopping center management techniques, the introduction of turn over rents, service charges and legally enforceable leases the practice of tenants being able to trade on their units without returning them to the landlord is dying out.

Rents are always payable in advance and may range from monthly, three monthly, bi-annually, or in buoyant markets, annually. The Arabian Gulf States with the exception of the United Arab Emirates operate the metric system of measurement, whereas the UAE still uses Imperial (feet and inches). All of the Gulf currencies are fixed to the U.S. Dollar that makes comparison relatively easy. However with some quoting rents in square feet per annum, some in square meters per month and others in square meters per annum, a spreadsheet and PC can be useful!

The division of shop units into zones for the assessment of rental value such as is the norm in the United Kingdom is not practiced in the Gulf with an overall standard rate being charged.

The most expensive location in the Middle East is Dubai where top retail rental values are between the equivalent of U.S.\$100 to U.S.\$150 per square foot per annum. Retail rents in Dubai will however come under extreme pressure in the next few years as the growth of new shopping centre space seems unabated. Lowest rates at around U.S.\$50 to U.S.\$100 are likely to be found in cities such as Muscat, Oman.

INVESTMENT RETURNS

The basis of comparing real estate investments in the Middle East varies considerably from that conventionally known in the west. In many cases land value may not be included because either it has been held in the family for generations or may have been gifted by a ruling family. Equally it is only rarely that a shopping center will change hands. This may only come about due more to a rearrangement of ownership internally between two members of an owning family or in times of a severely distressed market when the lender may be forced to foreclose on a loan.

If Western valuation techniques are applied average investment returns or capitalization rates are generally in the region of 10%.

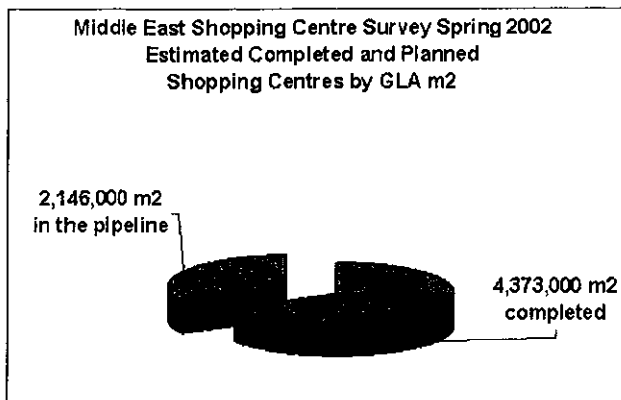
FUNDING

Shopping center developers, who are also almost always the owners, finance their projects from a variety of resources. Some may come entirely or

Exhibit 1

Middle East Estimated completed and planned shopping centers by gross leaseable area in square meters

Source Retail International® ©2002



substantially from internal equity, some may be provided by conventional bank loans or mortgages from either local or international banks. These depending upon the size of the project may be syndicated to a number of banks. Project costs up to U.S.\$ 1 billion are not unknown. Local and international banks may also provide borrowings using Islamic banking principles that eschew the concept of interest and although too detailed to develop in this paper, generally involve the lender taking some form of equity ownership in the project for a specified period at the end of which the ownership is 'sold' back to the borrower at a pre-determined price to show the lender a margin for the provision of finance.

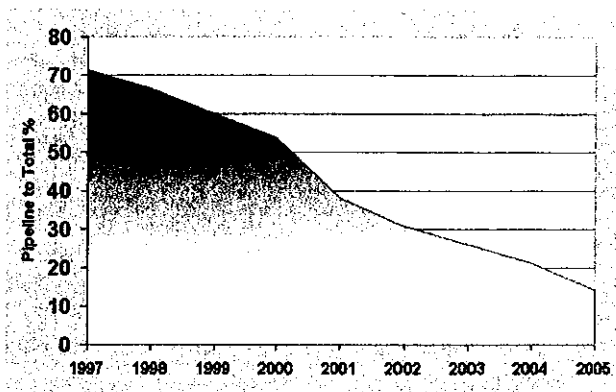
Retail Sales Figures

Unlike North America such information is a closely guarded secret among the Gulf retailers. Experience however indicates that high-end fashion apparel in top locations such as Dubai may average in the order of U.S.\$500 per square foot. Sales of jewelry, gold and perfume however are likely to substantially exceed this figure. Many shops also operate as showrooms with wealthy customers having merchandise sent to their homes for private viewing and purchase rather than in mall. Transactions such as these may be large and may not feature in the trading returns for individual shop units.

Exhibit 2

Middle East Total Shopping Center Space planned as a proportion of the total.

Source Retail International® ©2002



GEOGRAPHY

The Arabian Gulf (or Persian Gulf as it is known in the West) lies in west Asia on the east of the Arabian peninsula. With Kuwait at its head it divides the countries of Iraq and Iran on the east from Saudi Arabia and the other Gulf States on the west.

The leading Gulf countries are The Kingdom of Saudi Arabia, The United Arab Emirates, The Sultanate of Oman, The Kingdom of Bahrain, The State of Qatar and the State of Kuwait. Although each is entirely independent and a member of the United Nations and World Trade Organization, they are each a member of the Arabian Gulf Co-Operation Council. This is somewhat similar to the European Union aimed at increasing integration in terms of trade and monetary union between the member countries.

With minimal personal taxation the region enjoys enormous wealth due to the vast deposits of natural carbons (oil & gas) and other minerals. Gross Domestic Product per capita ranges from about \$10,000 in the less well off regions to well over U.S.\$25,000 in the wealthiest cities and states, such as Qatar, Kuwait and UAE.

The population of the region is rapidly expanding with one of the youngest demographic profiles.

The total is estimated at around 40 million of which over half are in Saudi Arabia. The population is predominantly urban with cities such as Riyadh, capital of Saudi Arabia, reported to have a population of around 5 million. Other principal cities are Jeddah (Saudi Arabia), Kuwait City (Kuwait), Dubai (UAE), Abu Dhabi (capital of the UAE), Sharjah (UAE), Manama (capital of Bahrain), Doha (capital of Qatar) and Muscat (capital of Oman). Apart from Jeddah, the former capital of Saudi Arabia, with a population of around 3 million, these other cities range from around 500,000 to 750,000.

The indigenous populations are boosted by large numbers of expatriate workers and their families including, many from South and East Asia and from the West.

The environment therefore is totally multicultural providing not only for exciting and vibrant communities but opportunities for retailers with a unique range of trading opportunities.