With new shopping centres opening their doors and double-digit growth predicted in the medium term, the Gulf retail industry looks set for a boom. But the market may be struggling with oversupply and dwindling demand.

Gulf Monitor | Jonathan Gorvett | GCC Retail

Looking at the headlines surrounding the Gulf retail industry these days, a sense of optimism clearly prevails. Recent estimates for sector growth are frequently double-digit, with 22% growth by 2023 one of the most common predictions.[1]

At the same time, the number and size of new malls coming into operation is impressive: Dubai – the GCC's largest retail market in terms of gross leasable area (GLA) according to a 2017 report from Alpen Capital – has seven new malls in the pipeline. This includes the $1.6bn Deira Mall which, at 418,000 sq metres, is set to be the Middle East's largest on completion in 2021.

Bahrain, which had the second-highest GLA in the region in 2017, will see three new malls open their doors in the next few years,[1] while Qatar's capital Doha, in third place, will add eight new shopping centres and around 548,000 sq metres of GLA in 2020, bringing total mall space in the country to over 2.43m sq metres.[2]Saudi Arabia, meanwhile, will see retail space in Riyadh alone reach 2.7m sq metres by 2023.

Smaller GCC players in terms of per capita GLA are also set for expansion: Kuwait, whose mall GLA totalled 702,000 sq metres in the 2nd quarter of this year will add a further 167,000 sq metres in 2020 and 2021, while Mall of Oman is set to add 145,000 sq metres of retail space to Muscat in 2021.[3]

There is, however, a difference between GLA and footfall, or between the number of shops and the spending of shoppers within them. For many retailers on the ground, the picture has been far from rosy for some time now, as the sector has been hit by a double whammy of cyclical headwinds and structural changes.

With many Gulf economies looking at retail as a key sector in their plans for diversification, too, this divergence in outlooks should be of major concern to GCC planners and investors.

Retail boom, regional bust?

Figures for retail sector growth routinely outstrip projected Gulf GDP. While Alpen Capital recently predicted a GCC-wide retail compound annual growth rate of 4% until 2023, the IMF's latest GDP growth prediction for the region is 0.71% for this year. This comes after GCC per capita income declined by 0.4% over the 2012–17 period.[4]

The coming years do not show much promise of improvement. Capital Economics, for example, sees a GCC average GDP growth rate of 1.48% next year, rising slightly to 1.62% in 2021.[5] The reasons for the sluggish growth rate are threefold: in addition to global economic downturns, several major recent projects – such as the Qatar World Cup and Dubai's Expo – have recently tapered off, and a sustained period of low oil and gas prices and OPEC+ production cuts are continuing to impact the region. In such circumstances, many consumers have been tightening their belts.[6]

Expat exodus

Recent economic developments are also affecting the makeup of the GCC's demographics. Most GCC states have large expatriate populations – in the case of Dubai, for example, around 92% of residents were non-nationals in 2018.[7] But with companies cutting budgets and freezing new hires, some expat workers are choosing to try their luck elsewhere.

At the same time, a wave of localisation programmes across the Gulf is contributing to dwindling numbers of overseas residents. In Kuwait, for example, the fall in expatriate numbers slowed overall population growth from 2.7% in the first half (H1) of 2018 to 2.1% in the same period this year. Furthermore, the number of expatriate dependents dropped by 2.5%, year-on-year, in June 2019 and 1.3% year-on-year overall in 2018 as expatriates sent family home to save money.[8]

While the majority of Gulf expatriates are low-wage – and therefore contributing minimally to organised retail activity – expatriates also make up a sizeable percentage of the middle- and upper-income residents likely to visit the mall. Localisation efforts have also cut down on the availability of shopping centre staff, who were previously mostly expatriates.

Gulf gaps

While economic figures are often given for the region as a whole, the rubric "GCC" can sometimes conceal more than it reveals. Painting with a broad brush fails to take into account the many differences between member states.

The embargo on Qatar, which has been in place since 2017, has undoubtedly affected the retail sector there – this ongoing political strife has cut off major sources of footfall from neighbouring Saudi Arabia, the UAE and Bahrain. Indeed, travelling for shopping has long been a major part of the GCC's retail experience: that Saudis can travel across the King Fahd Causeway to Bahrain, for example, go shopping and – importantly – go to the cinema, has long been a major factor in Bahrain's retail trade. Likewise, Dubai's malls are home to an astonishing mix of languages and cultures as shoppers from around the world hunt for bargains.

Unfortunately, however, this international shopping business is also experiencing some headwinds. With ongoing social liberalisation initiatives underway in Saudi Arabia, more Saudi shoppers are expected to frequent domestic outlets – a boon for Saudi retail, but potentially destructive for other GCC markets.[9]

Tourist arrivals in much of the region are rising – Dubai, for example, saw growth of 3% year-on-year in H1 this year.[10]However, average spend per visitor is not increasing at the same rate, with Mastercard forecasting growth at just 1.68% in 2019.[11]This is largely due to many new arrivals being lower-income travellers. As fierce competition drives down the cost of a Gulf vacation, recent liberalisation of visa policies are also making the region more accessible to tourists from lower-income markets.

Going online

These cyclical factors are occurring at a time when retail worldwide is facing a major structural challenge: a shift to online shopping. Improvements in logistics and payment gateways around the Gulf have been pushing the rollout of online retailers throughout the region. Additional developments in artificial intelligence and the Internet of Things also both promise a retail trade that has, in principle, little or no need for brick-and-mortar malls.

The picture may not be entirely gloomy, though. Some retailers have been tackling the growth of e-commerce by embracing it. Taking a multi-channel approach to sales, they use online platforms to bring customers to the store to sample or collect the goods, for example. Data analytics can also show patterns of consumer behaviour that stores can use to maximise revenue generation.

At the same time, the Gulf has been at the forefront of the international trend of malls featuring a wide range of entertainment and hospitality add-ons. This has boosted footfall by leveraging the mall's role as a centre not just for shopping, but for social interaction.

Nonetheless, recent numbers point to a significant oversupply in retail space across the GCC – which may serve as a sticking point for investors in the years to come.

Jonathan Gorvett is a journalist and analyst with many years experience researching and writing about the Gulf and the wider Near and Middle Eastern region. His interests include political and economic risk, development and the evolving place of GCC countries in the international diplomatic, political and economic landscape.

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