Dubai’s wholesale and retail trade sector overview

- The wholesale and retail trade sector is the second largest in Dubai’s economy, recording a share of 28.9% of total GDP in 2014, and employing roughly 25% of Dubai’s workforce.

- Dubai’s retail sales turnover was estimated at USD 42.5bn in 2014, up by 7.3% y/y, according to A.T. Kearney. By conservatively assuming an average 4-5% annual GDP growth rate up to 2020, we estimate that Dubai’s retail sales turnover will reach USD 55.3bn over the next six years.

- A strong tourism and hospitality industry will provide an important boost to Dubai’s retail spending. The expected influx of visitors in the run-up to the Dubai 2020 Expo will further support retail sales, and therefore demand for additional retail space.

- Dubai’s wholesale and retail trade license issuance increased by roughly 15.3% y/y in Q1 2015. Between 2011 and 2014 trade license issuance increased at an average of almost 8.3% per year. A steady increase in the number of trade licenses is indicative of growing interest among trade firms to establish operations in Dubai.

- Dubai has retained its position as the second most important international retail destination globally for 2015, according to CBRE consulting. Dubai is the second most popular destination of retailers present, followed by Shanghai surpassing New York in 2015.

- Separately, the UAE ranked 7th most suitable market for expansion among international retailers, according to the 2015 Global Retail Development index by A.T. Kearney. Despite the drop in oil prices, UAE’s retail space pipeline remains robust with several mega projects already planned or underway.

- Lending to the wholesale and retail trade sector expanded by 14.6% y/y in 2014 lower than the 22.4% growth recorded in 2013. Loans to this sector accounted for 12.2% of total bank loans in 2014.

Source: A.T. Kearney, Emirates NBD Research
Dubai’s wholesale and retail trade sector overview

The wholesale and retail trade sector is the second largest sector in Dubai’s economy, recording a share of 28.9% of total GDP in 2014. Growth in the sector accelerated to 2.7% y/y in 2014 from 3.6% y/y in 2013. Growth in tourism with steady rise in airport passenger traffic and high hotel occupancy rates, increased consumer confidence matched with solid transportation, logistics, tourism and retail infrastructure, are the key drivers of Dubai’s robust wholesale and retail trade sector’s performance.

Dubai’s population reached 2.35mn in Q1 2015, up by 5% y/y, according to the Dubai Statistics Center (DSC). The largest segment of Dubai’s population is the key 20-39 year age bracket which is the main driver for household spending on retail and a prime target market for retailers. Overall, UAE’s population was revised upwards and will reach roughly 11.1 million over the next five years, according to the IMF’s latest World Economic Outlook.

With an estimated 70% of the UAE’s population within the 20-39 year age bracket and with a rising GDP per capita, the UAE’s as well as Dubai’s wholesale and retail trade sector growth outlook is positive.

Dubai’s wholesale and retail trade license issuance

The net number of wholesale and retail trade licenses issued in Dubai increased by 15.3% y/y in Q1 2015, accounting for 75.8% of total business licenses. According to the Department of Economic Development (DED), between Q1 2011 and Q1 2015 the net number of trade licenses issued increased at an average of 8.5% annually indicating an improvement in the business environment.
Top 10 city rankings 2015, % of retailers present by city

<table>
<thead>
<tr>
<th>City</th>
<th>% of retailers present 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>London</td>
<td>57.9</td>
</tr>
<tr>
<td>Dubai</td>
<td>55.7</td>
</tr>
<tr>
<td>Shanghai</td>
<td>53.4</td>
</tr>
<tr>
<td>New York</td>
<td>46.3</td>
</tr>
<tr>
<td>Singapore</td>
<td>46.0</td>
</tr>
<tr>
<td>Moscow</td>
<td>46.0</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>44.7</td>
</tr>
<tr>
<td>Paris</td>
<td>44.0</td>
</tr>
<tr>
<td>Tokyo</td>
<td>43.4</td>
</tr>
<tr>
<td>Beijing</td>
<td>41.7</td>
</tr>
</tbody>
</table>

Source: CBRE Consulting, Emirates NBD Research

Separately, the UAE ranked 7th most suitable market for expansion among international retailers, according to the 2015 Global Retail Development index by A.T. Kearney, down by three places compared to 2014. Despite the drop in oil prices, UAE’s retail space pipeline remains robust with several retail projects already planned or underway. A strong and growing population and sustained economic growth have increased consumer and investor confidence and created a favorable environment for retail development in the country.

Growth in tourism supports retail trade

Gross leasing area (GLA) for Dubai’s retail malls remained stable in 2014. Between 2011 and 2014, GLA cooled down, growing at an average of roughly 2% per year after skyrocketing between 2000 and 2010 growing at an average of 25% per year. Over the next three years, around 786,000 square meters of new retail space will enter the Dubai market, according to Jones Lang LaSalle.

Dubai retail supply, 2012-2017

<table>
<thead>
<tr>
<th>Year</th>
<th>GLA in thousand sq meters</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2817</td>
</tr>
<tr>
<td>2013</td>
<td>2865</td>
</tr>
<tr>
<td>2014</td>
<td>2874</td>
</tr>
<tr>
<td>2015f</td>
<td>194</td>
</tr>
<tr>
<td>2016f</td>
<td>3119</td>
</tr>
<tr>
<td>2017f</td>
<td>3290</td>
</tr>
</tbody>
</table>

Source: Jones Lang LaSalle, Emirates NBD Research

Passenger traffic along with airport and port freight volumes provide great opportunities for Dubai’s retail business to thrive. 19.6mn passengers passed through Dubai International Airport (DXB) in Q1 2015, up by 6.8% y/y while DXB’s freight reading for the same period places DXB at the third place among the top 10 leading freight handling airports in the world, according to Airports Council International (ACI). Passenger traffic is expected to exceed 79 million at DXB by the end of 2015 and 103.5 million by 2020, according to Dubai Airports.

A strong tourism and hospitality industry will provide an important boost to retail spending. The number of tourists coming to Dubai and staying in hotels and hotel apartments rose to 11.6mn in 2014, up by 5.6% y/y, while tourist nights also rose to 44.7mn, up by 7.4% y/y for the same period, according to Dubai Department of Tourism and Commerce Marketing (DTCM). DTCM recently recalculated the 2014 tourist figure to 13.2mn, up by 8.2% y/y, by measuring international visitors travelling to Dubai and staying for at least one night not only in hotel establishments but also in holiday rentals and onboard cruise ships. Dubai is on its way to achieving the ambitious travel and tourism strategy which aims to attract 20 million visitors to the emirate by the end of the decade, according to DTCM.

Hotels in Dubai continue to enjoy high occupancy rates prompting developers and investors to plan for further projects and capacity expansion. The substantial growth in the supply of accommodation is already being reflected in slightly lower hotel occupancy rates. Dubai’s hotel occupancy averaged 84.9% in Jan-Apr 2015, down from 87% in the same period of 2014. With the supply of hotel rooms in Dubai currently outpacing demand growth, occupancy rates are likely to remain stable or ease slightly with demand catching up as we approach the 2020 Expo.

According to the latest data from STR Global, the supply of hotel rooms in Dubai increased by 5.8% y/y in April 2015 exceeding the 2.2% demand growth for hotel rooms the same month. There were 74,126 hotel rooms available (2.22mn room nights) in Dubai in April 2015.
The UAE ranked as the most competitive travel and tourism economy in the region, according to the 2015 Travel and Tourism Competitiveness Index (TTCI) by the World Economic Forum (WEF). Overall, the UAE ranked 24th out of 141 countries. The index measures the set of factors and policies that enable the sustainable development of the travel and tourism sector, which in turn contributes to the overall competitiveness of a country. UAE’s overall score was strengthened by its high performance for safety and security, business environment, air transport and tourist service infrastructure.

In terms of logistics infrastructure, the UAE ranked 27th overall and is the most logistics friendly economy in the region ahead of Qatar (29th overall) and Saudi Arabia (49th overall), with a score of 3.54 (where 1 is the least friendly and 5 is the most friendly economy), according to the 2014 World Bank’s Logistics Performance Index (LPI), measuring the logistics friendliness of 160 countries. Dubai’s geo-strategic location along with its high level of infrastructure and logistic facilities make it an ideal location for companies to base their wholesale and retail trade operations to serve regional markets.

Lending to the wholesale and retail trade sector expanded by 14.6% y/y in 2014 lower than the 22.4% growth recorded in 2013. Loans to this sector accounted for 12.2% of total bank loans in 2014. In 2014, bank credit to the trade sector reached AED 149bn compared to AED 130bn for 2013. Within the trade sector, wholesale trade accounted for 68.2% of trade loans and retail for the remaining 31.8%. There is scope to further increase the availability of credit to the trade sector as a whole over the coming years, but there is also potential for bank credit to further support the retail sub-sector in order to diversify the base.
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