



# What's the Deal?

## **The evolution of malls and their value proposition**

A periodic publication from the Deal  
Advisory team of KPMG Lower Gulf.

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# Introduction

**Welcome to the inaugural edition of “What’s the Deal?” – a periodic publication from the Deal Advisory team of KPMG Lower Gulf. Every edition will contain KPMG thought leadership and opinion pieces on topical matters, leveraging off our in-house research and experience.**

For our first edition we have chosen to focus our attention on shopping, and the impact of retail on the economy. In the GCC region, shopping malls are the main drivers of the retail industry, and uniquely so. Europe and USA, for instance, see much of the retail sales driven by ‘high street’ shops and online shopping. In the UAE and larger GCC region however, soaring temperatures for part of the year and a still nascent online shopping infrastructure make these segments of retail selling less popular.

Additionally, the regional ethos pertaining to malls cannot be overlooked. Malls in the region have grown and expanded almost simultaneously with the cities where they are located, and have in fact now become an integral part of the local lifestyle.

GCC malls mean business and understanding the malls’ value drivers is of crucial importance. The current publication does not attempt to provide an exhaustive analysis of the retail industry,

which in itself is evolving at a fast pace. We however hope you find our content insightful and we look forward to sharing our views with you on a variety of matters in the future editions!



**Richard Clarke**  
KPMG Lower Gulf Head of Deal Advisory

# The evolution of malls and their value proposition

## Why are malls important?

Shopping is an integral part of modern human culture and this is no more true than in the Middle East, which boasts some of the world's most famous shopping malls. Malls in this part of the world are not only a key component of the local lifestyle but are also a lucrative affair both on a macro level for the region and micro level for both developers and retailers:

— In the UAE, for instance, retail and wholesale trade made up approx. 11% of GDP in 2015, with malls being key contributors. Dubai Mall alone contributed to 5% of the GDP of Dubai, while all retail and wholesale trade made up 30%<sup>1</sup> of the emirate's GDP. Malls are also a key tourist pull. In recent years, Dubai has developed a global reputation as a glamorous shopping destination due to its super malls, pulling visitors from all over the world.

- The largest regional business groups have recognized the value in malls, such as Emaar, MAF, Nakheel and Al Futtaim, who have all developed malls across the GCC and wider MENA region.
- Most brands have followed the vision of the developers, opting to have multiple stores in malls instead of standalone stores.



“Whoever said money can't buy happiness simply didn't know where to go shopping”

- Bo Derek

# The evolution of malls

## Timeline

### Past



Malls initially served as a convenient retail hub for local residents.

Value was derived from their convenience of parking, location and store mix.

F&B and entertainment offerings such as cinemas and food courts provided an attraction factor that drew residents away from more traditional retail outlets.

### Present



The influx of luxury and international retailers, and growth of F&B and entertainment offerings saw malls evolving into weekend and entertainment destinations.

This led to the emergence of the “super malls” and the establishment of Dubai as a global tourist destination.

However, today, there is also an increasing differentiation of malls by offering such as convenience, entertainment, etc.

### Future



Today’s malls can be broadly categorized into community, regional and destination malls or super malls where community malls target local residents, while super malls attract visitors from all over the world with unique offerings.

The future malls are expected to continue to see such differentiation; however, another key aspect will be the considerable extent to which technology is expected to pervade each type of mall.

## Today's malls

Malls are becoming increasingly differentiated, with store mix, location, entertainment and food and beverage (F&B) offerings being tailor-made to suit the mall's target audience. Mall developers, having recognized such differentiation, are now diversifying their portfolio of mall offerings.

Let us consider two large developers in the UAE, namely Emaar Properties and MAF. Both developers have super malls – Dubai Mall and Mall of Emirates - each with distinct landmark attractions, luxury stores, etc. for tourists and locals. Additionally, they also have more convenience-centric malls, namely, the Dubai Marina Mall and City Centre Deira, that have a more traditional retail mix, entertainment and F&B options targeting a core resident base. Community malls, with a hyper – local focus, are also emerging as a key convenience shopping offering; Nakheel's Pavilion is one such example. Community malls are also key selling points used by residential developers to attract residents in an upcoming community.

**Given the current complex and competitive market it is increasingly important for mall owners to understand what truly drives value in malls and how they can leverage this to create and maintain value.**

## What drives value at malls?

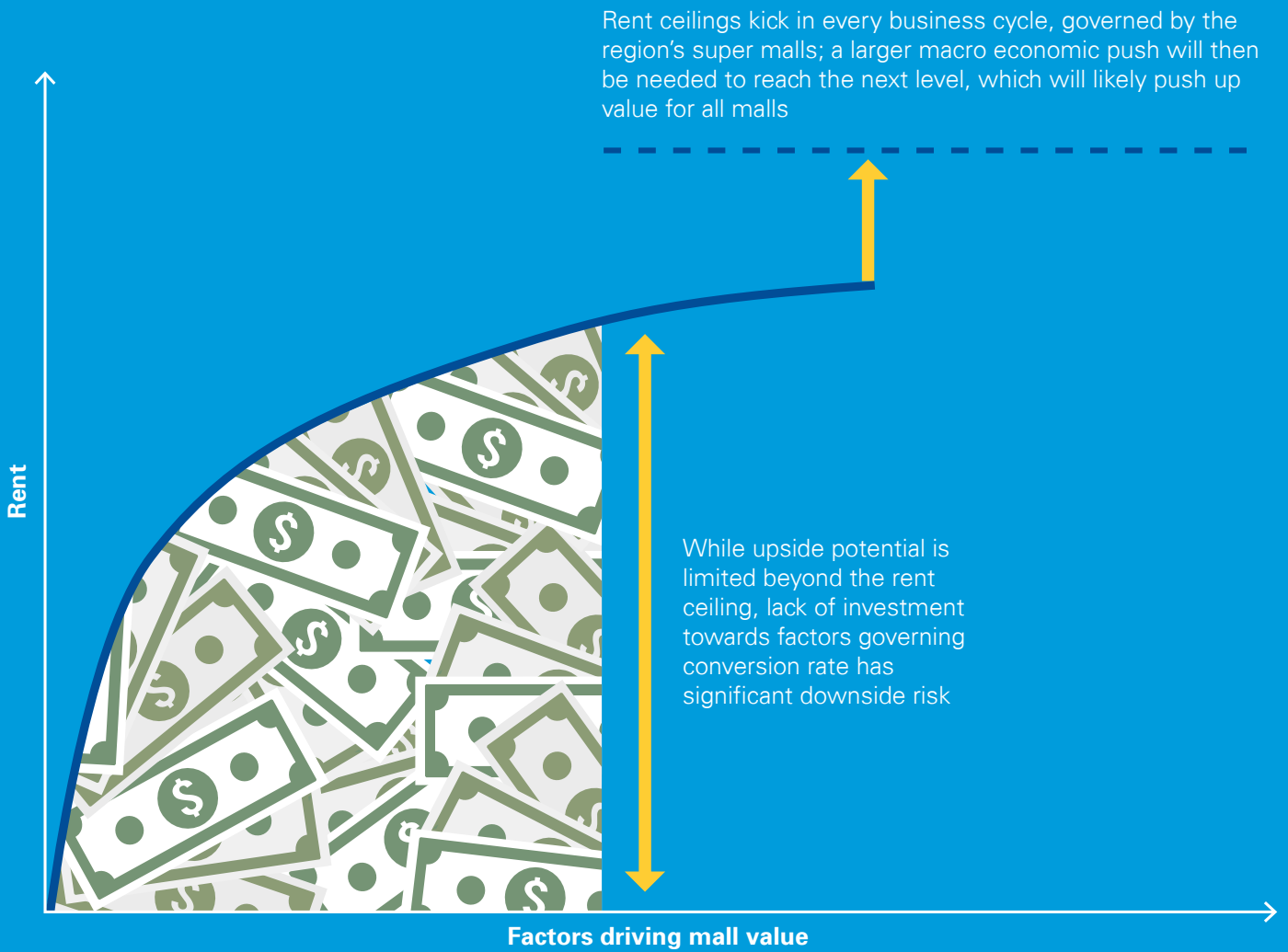
For any mall owner, the key driver of revenue is ensuring they find retailers to rent space at the highest price possible. The ability of a mall owner to demand high rents is closely related to the footfall figures for that mall. Simply put, the more people visit a mall, the higher the rental rate can be.

However, the relationship between the two is not a simple linear one. There are clear additional value drivers, other than footfall, which govern value. We have identified three such key factors - location, star and niche.

- **Location:** Community malls mostly emphasize this value driver. Here, the target visitor is a 'serious shopper', someone who has visited the mall to make a specific purchase; footfall here has a very high conversion to sales ratio, i.e. almost everyone who visits will end up spending money.
- **Star:** Super malls usually stress on this value driver and provide unique attractions (e.g. "biggest mall", "largest ski slope") to draw tourists and residents alike. While footfall is higher, conversion into sales ratio may not necessarily be as high as that in location-driven malls.
- **Niche:** A driver some malls use to attract very specific audience from the region (Outlet Mall and Dragon Mart in Dubai are such examples).

Interestingly, our analysis has also shown that there appears to be a ceiling on rents, capped at what the top 'super malls' of the region can demand (such as Dubai Mall, Mall of Emirates, in Dubai, Yas Mall in Abu Dhabi and Kingdom Centre Tower in KSA). We observed that the aforementioned and other value drivers can help a mall establish and grow value to a certain extent, but beyond the 'rental ceiling', the mall's ability to increase rental rates reduces significantly. The value drivers then only help to maintain value.

## Seeking value



Source: KPMG analysis



### **The impact of e-commerce**

E-commerce in the UAE has been projected to reach USD 10bn by 2018<sup>2</sup> - a factor that cannot be ignored by either retailers or mall developers.

The effect of e-commerce on a mall will once again depend on the classification of the mall itself.

For example, community and regional malls that primarily offer convenience will have to compete more directly with e-commerce than super malls, whose focus is on providing visitors with experience and entertainment rather than convenience.

However, many mall owners and developers are increasingly attempting to explore and adapt e-commerce to their mall concepts. Some interesting concepts we have seen emerge include virtual malls, e-commerce partnerships, and investments into the logistics space. We anticipate that this field is likely to undergo some rapid changes in the coming years.

### **Malls of the future**

Malls are long term projects with a typical lifespan of more than 30 years and, once established, cannot be easily changed. In this competitive market, the most pertinent questions for mall developers and investors are:

- "How will the mall of the future look?"

and

- "How best to develop a competitive mall that will be appealing to both consumers and retailers, today and for the next 30 years?"

While the evolution of malls has until now been largely focused on store and offering mix, going forward, we believe that streamlined offerings will continue along the lines of differentiated community, regional and destination malls, with location, niche and star factors as key drivers of mall positioning and value.

However, another key evolution line cutting across all types of malls will be technology. Mall developers increasingly need to consider how they intend to incorporate the latest technology into their developments when building the malls of the future. We have included here our thoughts, based on ongoing developments and our own market intelligence, on how each of the three categories of malls might evolve in the near (and slightly farther!) future.





## Nearer term

**evolutionary lines along differentiated malls:** These factors have to be considered in order to determine mall layout, retail mix, capital expenditure plans, revenue arrangements, etc. Understanding the positioning of the mall upfront will allow deeper understanding of value drivers.

Community malls	Niche malls	Super malls
These malls will face the stiffest competition from e-commerce, and will have to adapt, focusing on customer convenience and satisfaction of their core shoppers' needs, namely, residents in the surrounding communities. This can be done by ensuring that they have the most desired shop mix customized to their core shoppers' needs, and introducing related conveniences such as cafés, child care centers, fitness centers and salons.	These are expected to become more specialized and niche either through their retail mix or F&B and entertainment offerings. For example, Dragon Mart has a large Gross Leasable Area (GLA), used for a collection of small niche traders. In the case of Dubai Festival City, the mall has invested in boosting the F&B and entertainment offerings (e.g. water projection show).  This trend is likely to continue with niche malls becoming a central location for specialized products and services.	These malls will continue to push the boundaries of customer experience. The next super mall in Dubai, for example, will have to offer an even more unique experience than existing ones. Meydan One is an exciting development in this regard that will have technological advancements such as personalized advertising, social media linked updates to key promotions and green-technology to save water and energy.



## Longer term

**evolution along technological lines:** Technological advancements and integration will cut across mall types. Technological integrations can be along the lines of:

1. Improved data capture that exponentially increases retailers'/ mall developers' understanding of the profile of consumers (age, gender, etc.) coming to the mall
2. In-store customer data capture which can be analyzed to give more information on which products and services are most appealing to customers
3. Mobile integration of the above initiatives to customers allowing navigation through malls (with Dubai Mall having recently launched an app allowing just this), notifications about availability of items, offers and sales, "pick-up" options for supermarkets and reservations for services
4. Advancements related to infrastructure, such as the need for expensive parking space in an upcoming era of driverless cars.

Community malls	Niche malls	Super malls
<ul style="list-style-type: none"> <li>— Improved data capture &amp; customer analytics to arrive at store mix tailored to core shopper base</li> <li>— App notifications on availability, sales, offers, pick-ups, etc.</li> </ul>		<p>In addition to the alongside:</p> <ul style="list-style-type: none"> <li>— Technology as next entertainment frontier</li> <li>— Technology directing first time customers to relevant offering based on demographic analysis</li> <li>— Integration of infrastructure with tech – parking, for example</li> </ul>

# How can we help?

## **KPMG can help you build the mall of the future**

In an increasingly competitive market, malls must invest in developing a core and distinct identity so as to ensure growth and maintain value. However, since it is

more difficult to change a mall's value offering once it is established, it is vital for mall developers, as a first step, to think about the positioning of their malls both in terms of their target customers and the competitive landscape.

KPMG has been supporting their clients to do just this, by helping them better identify the drivers of value and developing corresponding strategies to achieve these goals.





# Contact us

## Richard Clarke

Head of Deal Advisory  
KPMG Lower Gulf  
T: +971 4 403 0441  
E: richardclarke@kpmg.com

## Elias Daou

Head of Valuations  
KPMG Lower Gulf  
T: +971 4 403 0352  
E: edaou@kpmg.com

## Authors

### Swetha Sunder

Deal Advisory  
KPMG Lower Gulf  
T: +971 4 403 0371  
E: ssunder@kpmg.com

### Vijyant Prakash

Deal Advisory  
KPMG Lower Gulf  
T: +971 4 403 0300  
E: vprakash1@kpmg.com

[www.kpmg.com/ae](http://www.kpmg.com/ae)  
[www.kpmg.com/om](http://www.kpmg.com/om)

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