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THE BUSINESS OF INTERIORS: RETAIL SECTOR OUTLOOK

PRODUCED BY:



A NOTE FROM INDEX...

The story of INDEX begins 30 years ago in Dubai. As rows of skyscrapers began to pierce the desert sands, INDEX was created to meet the vast demand for interiors furnishing as part of the booming real estate market, fast becoming one of the first large-scale trade shows in the region.

Ahead of EXPO 2021, technology and real-estate is on the cusp of new age. The Middle East's onward journey of advancement continues unabated and design sits at the heart of regional development - at once celebrating the city's heritage, while also driving progress in innovation.

With this in mind INDEX and dmg events are proud to publish this 'Business of Interiors' report series. As event organisers, and the largest platform for the interiors business in the Middle East, we strive to continue connecting designers with insight and access to products, while working to support and grow the regional economic growth of the interiors business. We look forward to the next 30 years acting as a gateway for brands to enter the Middle East market, in addition to championing our local manufacturers and connecting them to the region's phenomenal talent. In the nearer future we look forward to opening our doors to you for the 30th time at your annual interiors showcase, from 31 May - 2 June 2021 at Dubai World Trade Centre.



KATIE McBRIDE

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EXECUTIVE SUMMARY

According to the World Bank Group's Doing Business 2020 study, the GCC countries carried out a record new 35 reforms to improve the ease of doing business for their domestic enterprises. The record number of implemented reforms showcases the ambitious reform agenda across the region and gives a robust signal that the GCC region is open for business, according to Issam Abousleiman, World Bank Regional Director for the GCC. Business climate reforms in the GCC countries are estimated to register an economic growth rate of 2.2% in 2020 (World Bank estimates).

In 2020, the GCC region's spotlight is likely to be on several major global events, including Dubai's Expo 2020, Qatar's FIFA World Cup 2022, and the G20 summit in Riyadh from 21st to 22nd November 2020. These mega events are expected to project the region's economic development and potential, which is likely to contribute to ongoing efforts to attract investments and diversify economies. The GCC is an important and growing market for architects and the construction sector. The GCC's strong pipeline of projects due to these events spanning across sectors especially in residential and hospitality are all set to provide a boost to the country's interiors and fit-out sector.

Innovation and sustainability in construction, specifically in connection with new digital solutions, are driving the future of real estate in the Middle East, according to Dierk Mutschler, CEO, Drees & Sommer. Consequently, the spillover is also witnessed in the interior design and fit-out market, which is also currently witnessing combination of sustainability, innovation and technology, translating into new business strategies. Real estate developers and contractors will need to truly understand data and what

digitisation means for the construction and interior and fit out industries. They will need to design and construct buildings with the capacity to adapt to new technology and future needs for the next 50 to 80 years, adds Dierk Mutschler.

Business climate reforms in the GCC countries are estimated to register an economic growth rate of 2.2% in 2020

(World Bank estimates).

From 2020, the increasingly competitive environment will result in heightened demand for quality products, resulting in longer-term focus on investment in sustainable business models.



Innovation and sustainability in construction, specifically in connection with new digital solutions, are driving the future of real estate in the Middle East, according to

Dierk Mutschler
CEO, Drees & Sommer



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There are a host of smart technology solutions already available, from 3D laser scanning and digital modular fabrication to intelligent construction equipment and BIM models for design and construction, not to mention the use of Internet of Things (IoT) systems, robotics and data-driven business models for operation. For example, BIM software Revit is increasingly used in interior design projects to ensure high quality construction documentation, flexibility and enhanced multidisciplinary coordination, particularly between interior design and MEP.

Innovation and technology have brought many positive changes to the interior industry and has improved the communication between client and designers. Execution pace has improved with the latest technologies, machinery and materials. Interface of IT with construction has changed the way of doing interiors. It saves power and simplifies daily tasks using technology.

Challenges lie in achieving the successful integration or networking of multiple systems from different technology providers and critically, according to Stephan Degenhart, Associate Partner and Managing Director of Drees & Sommer Middle East, in realising a change in mindset. Existing buildings will also need extensive repositioning and revitalisation in order to compete in the digitised environment of the future.

According to a research by McKinsey & Company, adopting digital solutions throughout every phase of the construction process could increase market productivity by over 15% and reduce project costs by up to 45%.

In 2020, the UAE and KSA will continue to spearhead the GCC market in interiors and fit-out spend. The interior fit-out market in the UAE is one of GCC's fastest-growing industries and has always been a promoter of new trends in interior design.

The UAE's multicultural population has inspired interior designers and fit-out sector to adapt to changing tastes coupled with rising consumer demand that matches the latest trends. The sector is now invaded by much younger generation who heavily rely on technology to relate to the millennial population, which is more demanding in terms of trends, colours, styles and so on, predict industry experts. Among the sectors, the residential and hotels sector

adopting digital solutions throughout every phase of the construction process could increase market productivity by over 15% and reduce project costs by up to 45%.

According to a research by McKinsey & Company

are expected to hold the majority of total spend on interior design and fit-out in 2020.

Sustainability seems to be the topmost trend in interior design and fit-out in 2020 with few players adopting technology to meet the changing

needs of consumers and maintain their competitive position in the marketplace.



Challenges lie in achieving the successful integration or networking of multiple systems from different technology providers and critically, according to

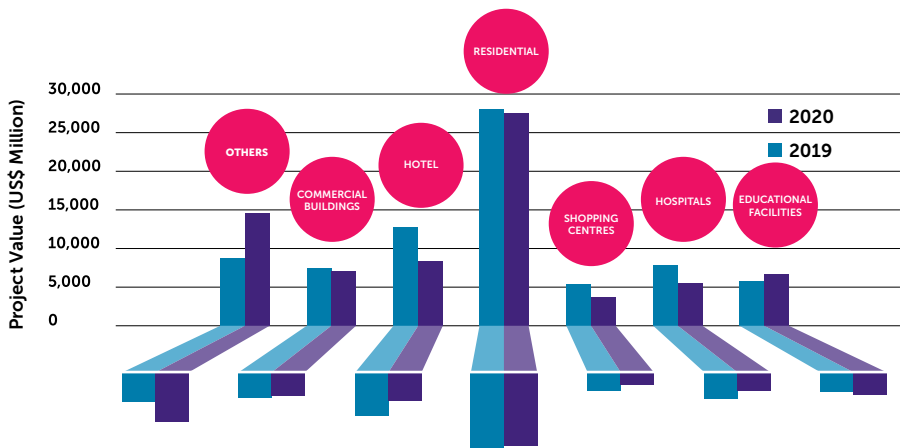
Stephan Degenhart, Associate Partner and Managing Director of Drees & Sommer Middle East

in realising a change in mindset

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The GCC building construction market's outlook remains largely positive, with a growing young local and expat population, and rapid diversification away from oil, which is evident in GCC economies retaining expenditures on key sectors such as hotels to promote tourism, education, affordable housing and healthcare. The GCC building construction projects expected to be completed across all sectors are forecast to increase from **US\$ 75,983 M** in 2019 to **US\$ 78,962 M** in 2020 (refer Figure 1).

Figure 1: GCC Building Construction Projects Completed in 2019 and Expected to be Completed in 2020 Split by Sector (US\$ Million)



Note: Figures are as of 7th January 2020. Others segment includes airports, recreational facilities, sports facilities and others. **Source:** Ventures ONSITE Project Intelligence Platform: www.venturesonsite.com



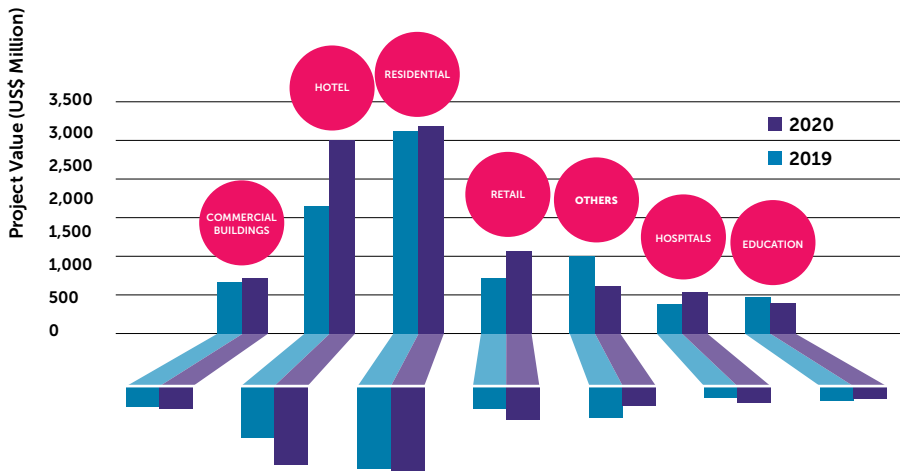
“The GCC building construction projects expected to be completed across all sectors are forecast to increase from US\$ 75,983 M in 2019 to US\$ 78,962 M in 2020” - Ventures ONSITE Project Intelligence Platform



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Interior design and fit-out are closely tied to the overall health of the economy, and particularly the property market. The overall GCC interior contracting and fit-out spend across all sectors is expected to increase from **US\$ 8,975 M** in 2019 to **US\$ 10,160 M** in 2020. The main focus will continue to be on residential and hotel projects in 2020.

Figure 2: GCC Interior Contracting and Fit-Out Spend by the Building Sector in 2019 and 2020 (US\$ Million)

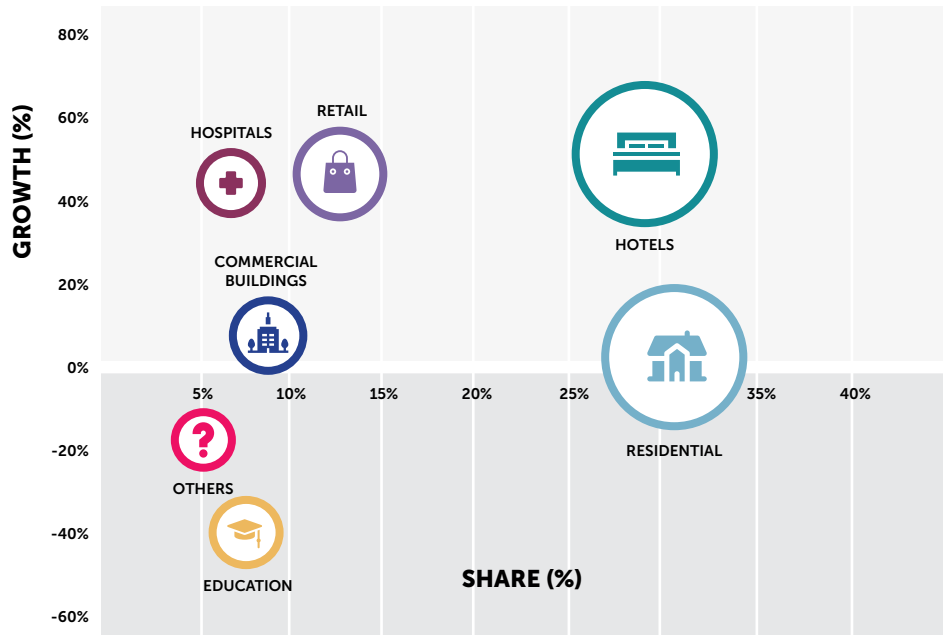


Note: Figures are as of 7th January 2020. Others segment includes airports, recreational facilities, sports facilities and others. **Source:** Ventures ONSITE Project Intelligence Platform: www.venturesonsite.com



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Figure 3: GCC Interior and Fit-Out Spend, Growth versus Share by Sector, 2020



Note: Figures are as of 7th January 2020. Others segment includes airports, recreational facilities, sports facilities and others. **Source:** Ventures ONSITE Project Intelligence Platform: www.venturesonsite.com



In 2020, the UAE (42%) is expected to lead in the share of interiors and fit-out spend in the GCC region followed by the Kingdom of Saudi Arabia (KSA) (29%) and Qatar (13%)

The outlook for the UAE remains promising, with Expo 2020 expected to boost the economy, in spite of ongoing weakness in non-oil activity. Expo 2020 Dubai is anticipated to bring together 192 countries to showcase their innovations, culture and accomplishments between October 2020 and April 2021. In 2019, the UAE approved a budget of US\$ 17 Bn for 2020.

The scale of investment pouring into Expo 2020 Dubai in addition to the anticipated visitor spend by 25 M visitors during the event is anticipated to support the economy by generating demand for retail, hospitality and tourism sectors. This momentum is expected to continue after the Expo closes its door in April 2021; and supported by the Vision 2021, the Expo's legacy aims to further bolster Dubai's growth as the exhibition site transitions into District 2020.

Expo should result in Dubai advancing to become the second most-visited city during 2020-21, reaching 23 M visitors in 2021. The emirate's largest-ever annual budget, worth US\$ 18 Bn for 2020, was

approved in December 2019, making it the biggest in Dubai's history. This comes as part of supporting the Dubai Plan 2021 and hosting of Expo 2020.

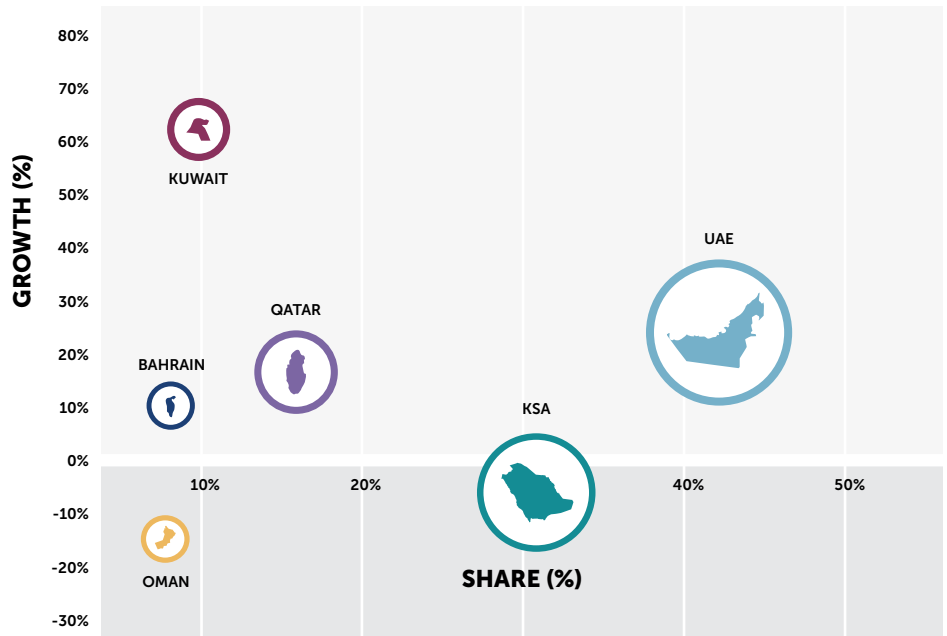
Spending on construction projects reached 12% of government expenditure. In 2020, Dubai will continue supporting social services including health, education and housing, and working on developing the Social Benefits Fund and supporting families, as part of the objective of making Dubai one of the most livable cities in the world.

Expo 2020 is seeing an increased focus on refurbishments in Dubai as clients look at reinventing space rather than building new structures from scratch. The UAE turns 50 in 2021 and has already started preparing for the next 50 to come. The task of preparing the groundwork for both 2021 and the following five decades falls on two teams: The first is tasked with mapping out the development plan of the next 50 years and the other will oversee the celebratory activities of the country's Golden Jubilee.



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Figure 4: GCC Interior and Fit-Out Spend, Growth versus Share by Country, 2020



Note: Figures are as of 7th January 2020. Source: Ventures ONSITE Project Intelligence Platform: www.venturesonsite.com

KSA is expected to also be one of the biggest investors in the Gulf region for interior design and fit-outs. The attention resulting from the G20 could be harnessed to attract interest in both portfolio and direct investment in KSA, which will be vital if it is to achieve its objectives. The government set an optimistic target for the country's economic growth when the cabinet approved the US\$ 272 Bn budget for 2020, which is skewed towards economic diversification, creating more jobs and increasing non-oil revenues. KSA is expected to witness growth in the future on the back of the government's continued efforts to increase spending efficiency and enhancing public-private partnerships (PPPs).

In December 2019, Qatar announced that it plans to spend 1.9% more in 2020 over 2019, outlining a US\$ 58 Bn budget to complete infrastructure projects including facilities for the FIFA World Cup 2022. According to the finance ministry, the 2020 budget is designed to achieve efficiency in the current expenditure while maintaining the allocations required for the completion of major approved projects. New projects worth US\$ 3.2 Bn will be awarded in 2020. Moreover, there has been small progress recently in resolving the dispute with the other GCC countries. There was no mention of VAT introduction in Qatar's 2020 budget statement. According to the World Bank, Qatar is the only GCC country expected to post a fiscal surplus between 2019 and 2021.



RETAIL MARKET OUTLOOK

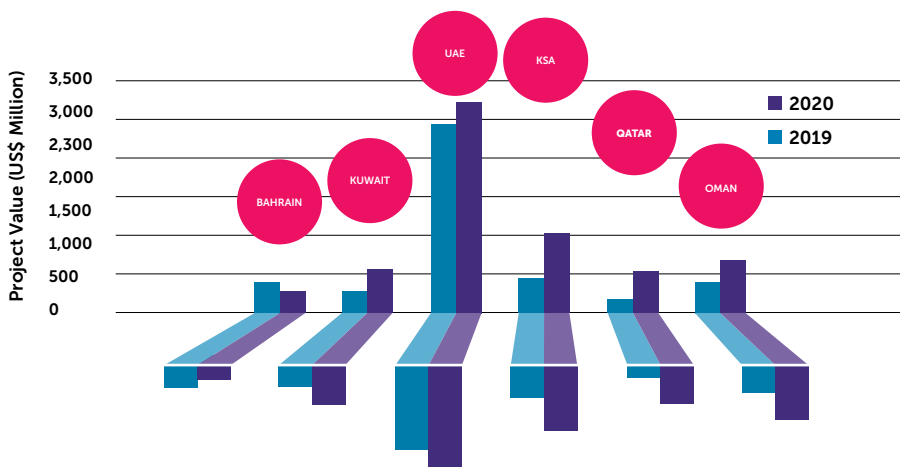
Note: For this study, the GCC retail market is classified as shopping centres.

According to Alpen Capital, the GCC's retail sector is forecast to grow by about 22% to US\$ 308 bn in 2023. The GCC retail sector projects expected to be completed is likely to increase from **US\$ 3,834 M** to **US\$ 5,613 M** in 2020 (refer Figure 5). Though the retail sector has witnessed challenging times in recent years, it is likely to regain momentum, owing to an expanding population base, high GDP per capita and growing tourism sector. The initiatives undertaken by the government in streamlining retail infrastructure and strengthening investments towards infrastructure have helped the retail sector gain further prominence within the GCC markets, adds Alpen Capital. Initiatives taken by the GCC governments in stimulating retail infrastructure projects and ease of business and visa regulations to strengthen the tourism and investment landscape should provide impetus to the retail sector going forward. These proactive initiatives and upcoming major events like the Dubai Expo 2020 and Qatar's FIFA World Cup 2022 will contribute positively to the sector and strengthen its position.



The GCC's retail sector is forecast to grow by about 22% to US\$ 308 bn in 2023. The GCC retail sector projects expected to be completed is likely to increase from US\$ 3,834 M to US\$ 5,613 M in 2020. According to Alpen Capital

Figure 5: GCC Retail Projects Completed in 2019 and Expected to be Completed in 2020 by Country (US\$ Million)

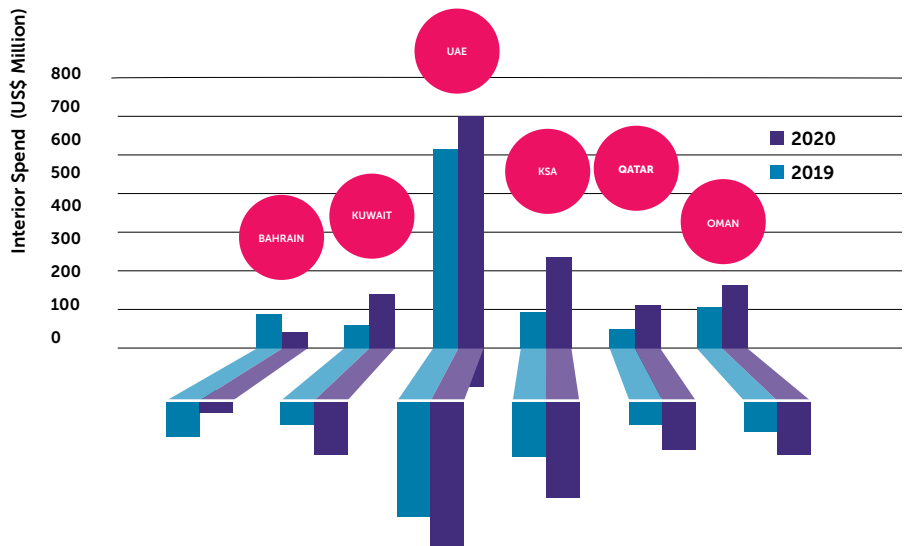


Note: Note: Figures are as of 7th January 2020

Source: Ventures ONSITE Project Intelligence Platform: www.venturesonsite.com

The GCC retail interiors and fit-out spend is expected to increase from US\$ 863 M in 2019 to **US\$ 1,263 M** in 2020. In 2020, the UAE is expected to register the largest interior and fit-out spend worth **US\$ 681 M** followed by KSA (US\$ 228 M) and Oman (US\$ 141 M) (refer Figure 6). The UAE and KSA are expected to account for the bulk of sales over the next five years as the two countries are opening up the sector for 100% foreign direct investment (FDI), are expected to attract regional and international brands. Developers are increasingly modernising Oman's retail sector to drive footfall and spend as supply is moving towards large malls with unique concepts and diverse leisure and entertainment offerings, according to JLL.

Figure 6 : GCC Retail Interiors and Fit-Out Spend by Country from 2019 to 2020 (US\$ Million)



Note: Figures are as of 7th January 2020.

Source: Ventures ONSITE Project Intelligence Platform: www.venturesonsite.com



The GCC retail interiors and fit-out spend is expected to increase from US\$ 863 M in 2019 to US\$ 1,263 M in 2020. Source: Ventures ONSITE Project Intelligence Platform



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MAJOR DESIGN TRENDS IN THE GCC RETAIL SECTOR

Retail design in the GCC is developing to meet consumers' changing needs, and the dynamic has shifted from an online versus in-store shopping experience. International and local design and fit-out companies are expected to reap benefits from the retail sector's growth, because of the increasing focus on consumer comfort in the market. In retail, all spaces must be exploited and have a purpose. Streamlining circulation is important to ensure the customers can move easily within and between stores, guiding them from one space to another and providing opportunities for them to see product displays on the way, thereby stimulating them to make purchases. Once the circulation is determined, other key factors must be considered, such as creating the right ambience or thematic presentation of the space. Choosing the right materials, creating a pleasant atmosphere through effective use of lighting, sound and visual merchandising will help to have a great impact on the customers.

Using biophilic designs in retail interiors can help to create not just a functional and aesthetic retail space, but also a space that can improve the mental wellbeing of customers and employees. Plenty of shop floors now incorporate more indoor plants and natural lighting to help create a better work environment for employees.

According to Sergio Padula, iGuzzini's technical director, artificial light plays a crucial role in daily activities. In particular, what defines the retail sector is the so-called light experience, seen as an element of corporate branding. The perception, the colour rendering and the sense of well-being, have a considerable impact on the behaviour of the customers and consequently, the design choices and product selection

appear to be significant factors. In the retail sector, artificial light is an extremely effective tool to increase and improve sales performance.

According to Alpen Capital, the GCC retail industry is set to witness a significant transition with the likely introduction of AI, AR/VR, Image Recognition and Computer Vision Technologies. This enhancement of technology could improve margins and customer centricity, and enable better understanding of changing consumer preferences with the use of data analytics. Adding an e-commerce layer to the physical retail store by allowing sales assistants in-store to have a live chat or video calls to assist online customers is one of the new exciting features. Moreover, AR technology that allow consumers to review products, watch videos or pick up clothes and fitting it virtually is a growth area for the next few years and provides added value to retail design and architecture.

Artificial light plays a crucial role in daily activities. In particular, what defines the retail sector is the so-called light experience, seen as an element of corporate branding.

According to Sergio Padula, iGuzzini's technical director

According to Tim Graveling, design director at Dalziel & Pow, retail design has certainly changed a lot within the past few years. The most considerable change of all is the inclusion of technology and digital interfaces across all service related facets of the store.

Shopping touchscreens are at the heart of the upgraded experience, such as the beauty lab where women are encouraged to try on new looks. The lab is situated right in the centre of the store giving customers a holistic view of the various brands, thus making it easier for them to pick brands they would like to try.





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MAJOR PROJECTS IN THE GCC RETAIL SECTOR

The following table represents the list of top retail projects expected to be completed in 2020 across the GCC.



TABLE 4: MAJOR GCC RETAIL PROJECTS EXPECTED TO BE COMPLETED IN 2020 BY PROJECT VALUE (US\$ MILLION)

PROJECT NAME	NET VALUE (US\$ MN)	COUNTRY
The Reem Mall in Najmat on Reem Island on Plot No. C5 - Sector RR1	1200	UAE
Mall of Oman	714	Oman
Al Zahia City in Sharjah - City Centre	707	UAE

Source: Ventures ONSITE Project Intelligence Platform: www.venturesonsite.com



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For 30 years, INDEX has grown and evolved to become the largest and most successful trade fair dedicated to furniture, furnishings, lighting, decorative products, materials and fittings in the Middle East. It's the show where business is done, and connections are made.

Every year, 30,000 visitors utilise the Dubai based exhibition to discover new and innovative products from across the globe in addition to exploring showcases from local designers, brands and manufacturers. The world-renowned event now runs brand extensions in Saudi and Qatar, and is itself co-located with The Hotel Show, The Leisure Show and WORKSPACE as part of Middle East Design & Hospitality Week.

For more information about participating with your brand, view the 2021 INDEX event brochure:

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