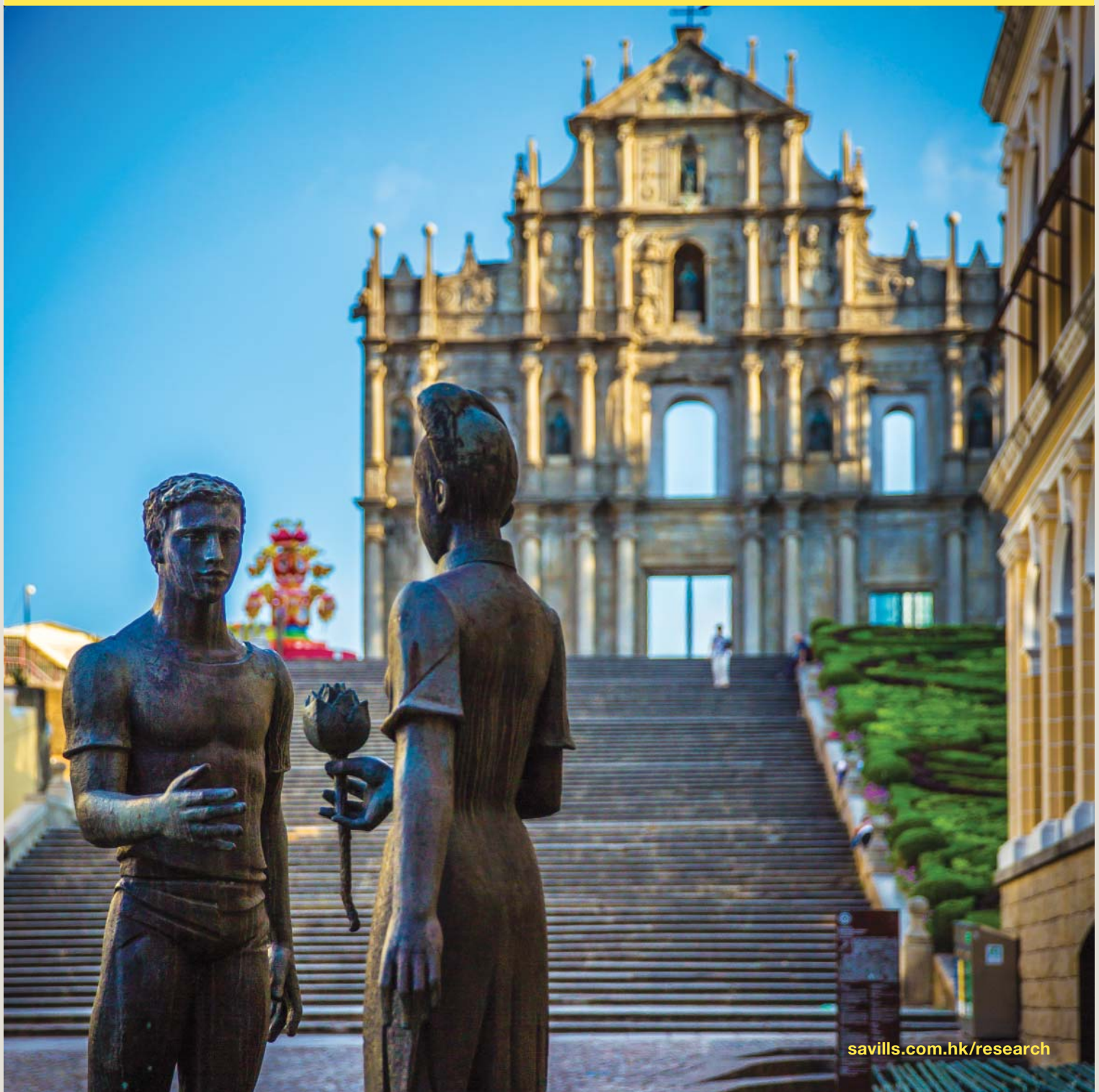


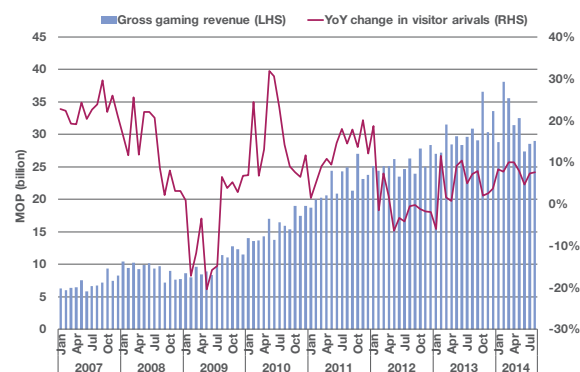
# Asian Cities Report

## **Macau Retail**

2H 2014

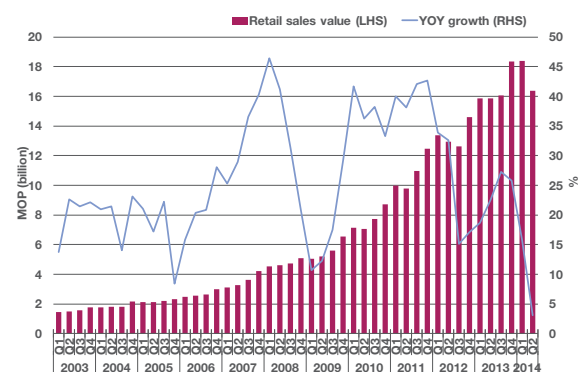


**GRAPH 1**  
**Gross gaming revenue vs year-on-year change in visitor arrivals, Jan 2007–Aug 2014**



Source: DSEC, Savills Research & Consultancy

**GRAPH 2**  
**Quarterly retail sales vs year-on-year change in quarterly retail sales, Q1/2003–Q2/2014**



Source: DSEC, Gaming Inspection and Coordination Bureau, Savills Research & Consultancy

**TABLE 1**  
**Major retail leasing and sales transactions, Q1/2014–Q3/2014**

Locations	Monthly rent (HK\$ mil)	Transaction price (HK\$ mil)	Unit rate (G) (HK\$ per sq ft) (assume 70% efficiency)	Date
No. 12-14 Rua de Sao Domingos, Macau	1.3	-	\$344	Q1
No. 6-12 Rua de Sao Domingos, Macau	2.8	-	\$241	Q1
Centro Comercial E Turístico S. Paulo, No. 2 Largo da Companhia de Jesus, Macau	2.4	-	\$82	Q1
No. 5 Rua da Palha/No. 1 Patio da Batega (en-bloc), Macau	-	315	\$105,000	Q3
No. 8 Rua de Sao Paulo	-	194	\$100,044	Q2
No. 6-B Travessa de Se	-	130	\$124,658	Q2
No. 26B Rua de Sao Paulo	-	165	\$144,918	Q2

Source: Savills Research & Consultancy

## Macau

Macau's economy grew at a brisk rate of 10.2% in Q2/2014, 2.8 percentage points (ppts) above that of China (7.4%) and 8.0 ppts over Hong Kong. The rebound in external demand as well as capital investment in tourism and gaming facilities are the main drivers of this rapid growth.

Given the strong economic performance, the median monthly income of residents rose to a record-breaking level of MOP13,000 per month in Q2/2014 and the overall unemployment rate in Macau registered a record low of 1.7% over the same period. Meanwhile, the tourism and gaming sector is still expanding; visitor arrivals and gross gaming revenue up to August 2014 grew by 7.9% and 8.1% respectively, compared with the same period in 2013. Supported by growth in the domestic employment market, as well as the tourism sector, the Macau retail market continues to gain ground, with retail sales up by 9.4% over first half of 2014.

The robust performance of the Macau retail market has caught the eye of international retailers. A number of large fast-fashion chains have made or confirmed an entry to the market this year, including Forever 21, Uniqlo, H&M and Jack Wills. This is an important milestone for Macau in establishing itself as an international retail marketplace, diversifying the offerings from a tourist-oriented luxury hub to an aspirational and kaleidoscopic shopping destination for sophisticated shoppers.

## Future development in Macau

The Macau tourism and retail markets are still undergoing rapid development; approximately ten integrated hotel and entertainment complexes are currently under planning or in the construction stages, and are expected to be completed over the next three to five years, which will add more than 23,000 additional hotel rooms and 323,000-sq ft of quality retail floor space to the market.

## Hengqin

Recently, the market focus has been on neighbouring Hengqin New Area, which is located on Hengqin Island in southern Zhuhai. The island is on the west bank of the Pearl River Delta

(PRD), opposite the three islands which comprise Macau, and are connected via the Hengqin border bridge. Other major cities in the PRD, such as Hong Kong, Shenzhen and Dongguan, are within 140 km of Hengqin. The strategic location of Hengqin New Area means that it is important in the ongoing economic integration of the PRD, and the urban integration of the Zhuhai and Macau. In addition, the Hong Kong, Zhuhai and Macau cooperation model is dependent on the development advantages of the New Area.

"The Outline of the Plan for the Reform and Development of the Pearl River Delta (2008–2020)" approved by the State Council of the People's Republic of China, listed Hengqin as a new area to be developed, and it then became the third national-level New Area, after the planning and construction of Shanghai Pudong New Area and Tianjin Binhai New Area was lifted to a national strategic level. The function of Hengqin New Area is to drive economic development in the PRD and serve Hong Kong/Macau. It will also pioneer the Guangdong/Hong Kong/Macau cooperation model, becoming a zone in which to further deepen economic reform and technology innovation, while also setting up a new platform to facilitate the industrial upgrade of the PRD west bank area.

From a functional perspective, around 56% of land is allocated for residential/commercial/industrial use, while around 12% is earmarked for government and public facilities. The remainder of the land is allocated for road networks (16%) and green space (16%).

According to the master plan, Hengqin will form three sub-areas and ten districts, each with the respective functions shown in Table 3.

## Property-related policies

In terms of policy support, Hengqin's government has been committed to passing preferential policies with regards to tax, talent and industry. The gradually-implemented preferential policies will also, to some extent, boost the property market on the island.

The current major preferential policies which will potentially drive the office market are the corporate tax-related policy, as well as financial innovation



policy. Hengqin has already launched an industrial guidance list and will list the favourable condition requirement of the preferred companies. Companies which meet the relevant conditions will benefit from a preferential corporate tax of 15%. The Incorrupt Government Office of Hengqin New Area has been established to promote a legalised and corruption-free environment to favour financial markets. We expect in the future the government will launch more favourable policies with regards to financial innovation which will help to attract financial institutions to Hengqin, thus creating demand for offices.

On the retail property front, according to the current policy guidance, the most relevant policy to drive the development of the market will be the provision of duty-free shopping services as well as an open visa management system. Since Hengqin has been set up as a pioneer within the Guangdong/Hong Kong/Macau area, it has been striving for an offshore duty-free policy like Sanya. We believe that the prospects of the retail market would also be considerably improved if the government approves the duty-free policy and allows for multiple-entry visas.

In the future, with the implementation of preferential policies such as a 24-hour customs clearance as well as the introduction of talent, more and more Macau residents will seek to live and work in Hengqin. According to the existing talent introduction policy, the extra tax paid by Hong Kong/Macau residents working in Hengqin will be subsidised by the provincial/municipal government jointly and such a subsidy will be tax-exempted. The "Guangdong/Macau cooperative agreement" already lists favourable details benefiting Macau residents who are working and living in Hengqin, including customs clearance and social welfare. Such measures will help to drive demand for residential property.

## Hengqin's effects on the Macau Property Market

There are rising concerns over the impact of the forthcoming Hengqin development on various sectors of the Macau property market.

We believe the Hengqin New Area is a complement, rather than a threat, to Macau's future development. Considering the limited land resources

available in Macau, the development of Hengqin Island should enable the SAR to diversify economically in the long term.

We believe the impending impact will be focused on the mass to mid-end segments of Macau's residential and office markets, and the effect on the luxury residential, Grade A office and retail markets will be muted, given the distinction in market positioning and offerings. Currently, new residential developments in Hengqin New Area are focused on the mass market, which is attracting prospective end-users i.e. young Macanese, newly married couples and local investors looking to leasing accommodation to the working population from the Cotai area.

On the office front, we expect over 1.83 million sq m of new office space to come on stream from Hengqin New Area over the next five years. While offices in Macau are more favourable for enterprises to manage their local business and serve clients, office developments in Hengqin are more competitive for labour-intensive businesses and back-offices in terms of rental levels and available options.

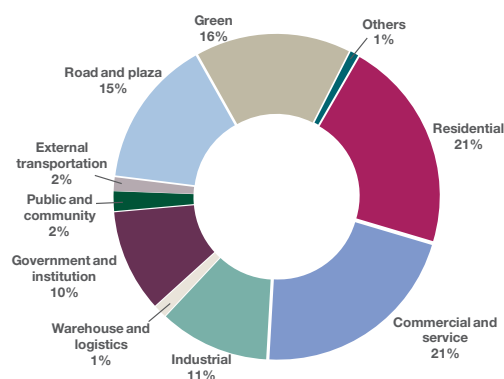
The retail market in Macau is undergoing a rapid development phase and is maturing. Watch and jewellery and other luxury goods retailers are eyeing prime locations for further expansion, for example Chow Tai Fook leased the G/F shop at 18-20A Largo Do Senado for a monthly rent of about HK\$2.8 million, an 80% increment over the old rent. Foreign prime shopping mall operators such as Sands, Wynn and MGM are benefiting from the rapidly growing retail market, supported by the fact that the three malls to be completed in 2015, the Galaxy Phase 2, Studio City Macao and The Parisian Macao are almost fully pre-leased. With the concentration of international retailers and operators, Macau's retail market has a clear distinction in terms of positioning and offerings from the upcoming commercial developments on Hengqin Island. Moreover, the developments in Hengqin New Area will bring in additional living and working populations as well as family-type tourists (as gambling will be prohibited on the island). This will provide new sources of demand to the Macau retail market and leave it less vulnerable to fluctuations in the gambling-orientated tourism sector. ■

TABLE 2  
Future developments in Macau, 2015–2017

Name of project	No. of hotel rooms	Retail GFA (sq ft)	Expected year of completion
Studio City Macao	2,304	28,854	2015
Galaxy Phase II to IV	5,480	150,784	2015
St. Regis of Sands	439	TBC	2015
The Parisian Macao	3,600	46,444	2015
Louis XIII	236	2,874	2015
Wynn Palace	1,516	6,095	2016
MGM Cotai	1,600	17,332	2016
Lisboa Palace	2,019	70,763	2017
Shun Tak Cotai Project	TBC	TBC	TBC
Theme Park Hotel	6,356	TBC	TBC

Source: Company reports, Savills Research & Consultancy

GRAPH 3  
Allocation of land by use in Hengqin New Area



Source: Zhuhai Planning Bureau, Savills Research & Consultancy

TABLE 3  
Hengqin New Area subdivision of sub-areas and functions

Sub-area	Location	Function	Districts
Commercial service area	East and north of the small Hengqin mountain, along the river	To enhance industry and population aggregation, and form a service industry chain which radiates to both the domestic and overseas markets.	Border Service District, Central Business District, International Residential Community
Science, teaching and R&D area	Between the big and small Hengqin mountains and on the side of the central trench	Primarily to develop science/education facilities as well as R&D and high-tech industries in order to form an open regional system to improve Hengqin's technology innovation capabilities.	Teaching District, General Service District, Cultural Innovation District, R&D District, High-tech District
Leisure travel area	South of the Hengqin mountain on the coast	A destination for travellers with mutual support from Hong Kong/Macau. The location of the leisure travel zone combines mountain and sea views, natural beauty spots, plus a cultural eco-friendly area.	Leisure Travel District, Natural Landscape District

Source: Hengqin Master Plan

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