

Market in minutes

Macau Residential

September 2013

The sector continued to flourish on the back of rapid economic growth.

Market commentary

Macau's economy grew by 10.8% in Q1/2013, the highest rate since Q2/2012. Thanks to the strong growth in government investment, attributed to the construction of the Hengqin Campus of the University of Macau, the Light Rail Transit system and various public housing schemes, the investment component of GDP grew by 13.8% in real terms.

Macau's gaming and tourism sectors regained momentum in Q2/2013, with gross gaming revenue increasing by 15.7% year-on-year (YoY), the fastest rate since Q3/2012, reaching MOP86.4 billion. The YoY growth in monthly visitor arrivals ranged from 0.7% to 11.5%

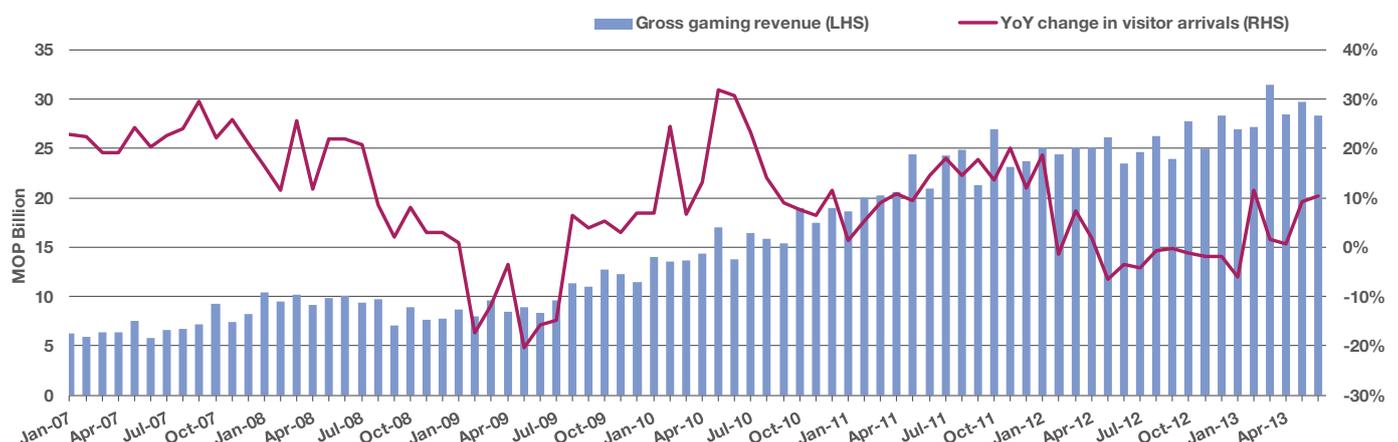
from February to June 2013, after remaining in negative territory for nine consecutive months. Macau's retail sector grew by 18.7% YoY to MOP15.7 billion in Q1/2013, alongside a 10.2% YoY growth in private consumption expenditure. Due to a significant increase in hotel supply in 2012, the average hotel occupancy rate dropped to 79.9% in the first five months of 2013, a decline of 2.6 percentage points compared with the same period last year.

Although transaction volumes revived in the second half of 2012, market activity slowed in 1H/2013 with transactions falling by 3% YoY, while 51% of transactions concluded were for new units. In June 2013, the

HIGHLIGHTS

- Thanks to strong growth in government investment, Macau's economy grew by 10.8% in Q1/2013, the highest rate since Q2/2012.
- The overall average transacted price grew over seven consecutive quarters at a rate of 14.1% QoQ.
- In addition to the existing cooling measures, home buyers, sellers and agents are having to familiarise themselves with the newly implemented pre-sale law on residential properties and real estate agencies resulting in a short-term low in transactions.
- Market activity will gradually regain momentum on the back of rapid economic growth and strong housing demand from local upgraders. Foreign buyers represent less than 5% of transactions currently.

GRAPH 1
Gross gaming revenue vs YoY change in visitor arrivals, Jan 2007–Jun 2013



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

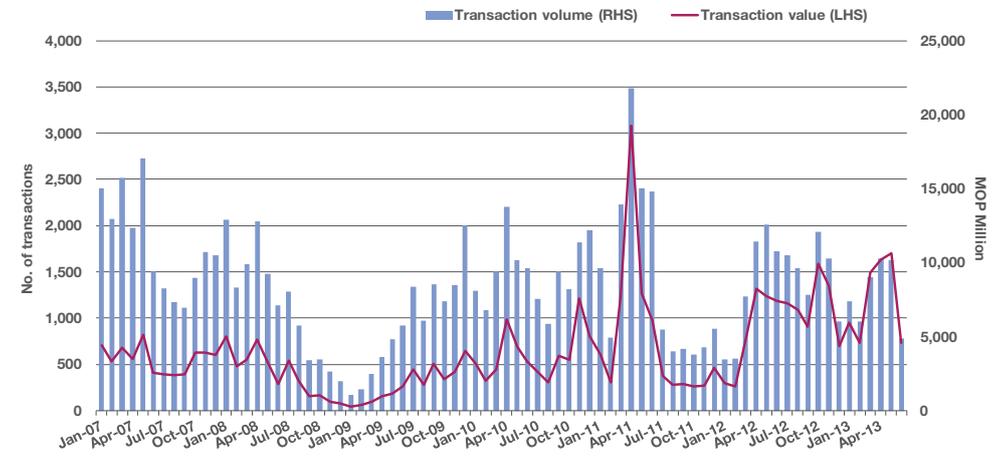
new pre-sale law was implemented, which requires developers to complete the foundation of a building and obtain pre-sale approval before they can sell units. This reduced the number of new flats available for sale, with only 28% of transactions in June 2013 involving new units compared with 54% in the first five months of 2013.

At a district level, average home prices on the Macao Peninsula and in Taipa grew by 19.7% and 16.4% quarter-on-quarter (QoQ) respectively. Meanwhile, the average price in Coloane, which is dominated by primary luxury flats, declined by a mere 1.2% QoQ. Given that Coloane account for the lowest portion of transactions among the three districts, the overall average transacted price grew over seven consecutive quarters at a rate of 14.1% QoQ.

Despite the extra difficulties caused by the pre-sale law, developers are launching new developments over the remainder of the year, with unit sizes ranging from 1,640 sq ft to 7,760 sq ft in order to suit demand for mid- to high-end residential properties.

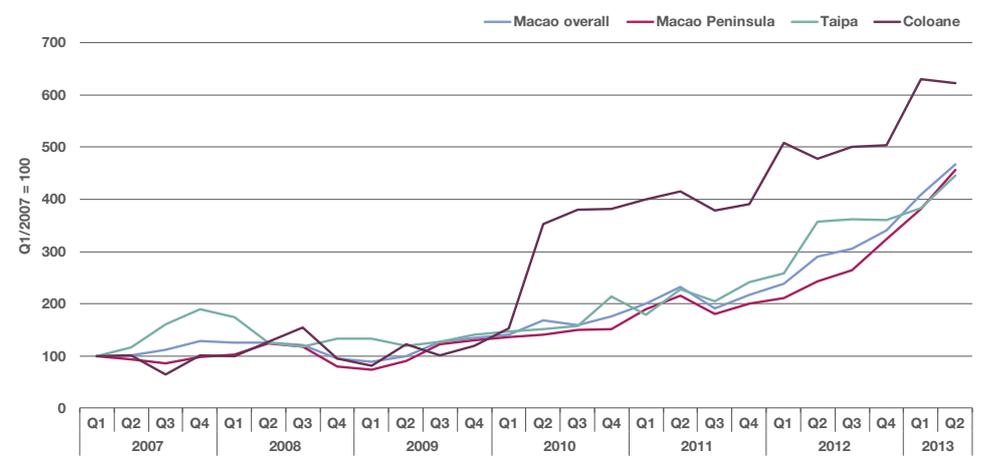
We estimate an average of 1,658 residential units will be completed from 2013 to 2015, 16% below the 10-year average of 1,975 units from 2003 to 2012, indicating a reduced level of supply of flats in the short to medium term. ■

GRAPH 2 Number and value of residential transactions per stamp duty, Jan 2007–Jun 2013



Source: DSEC, Savills Research & Consultancy

GRAPH 3 Overall residential price indices by district, Q1/2007–Q2/2013



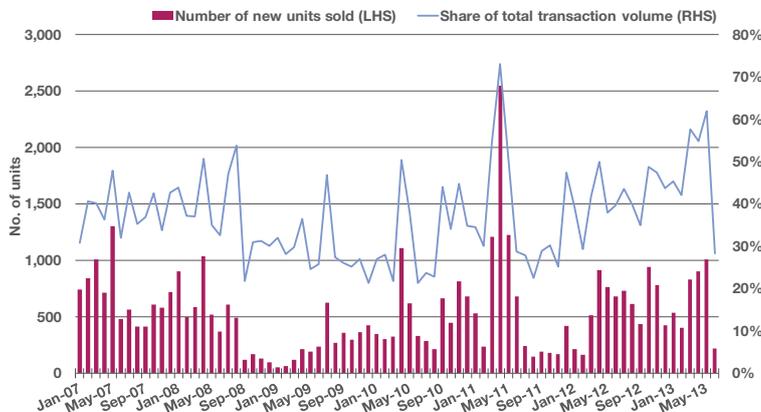
Source: DSEC, Savills Research & Consultancy

TABLE 1 Mid- to high-end residential developments to launch in 2H/2013*

District	Project	Size range (sq ft gross)	No. of units
Taipa	Tower 6 of Windsor Arch	3,750–7,760	58
Macao	The Fountainside	1,640–3,850	20**
Macao	One Penha Hill	1,780–5,430	63

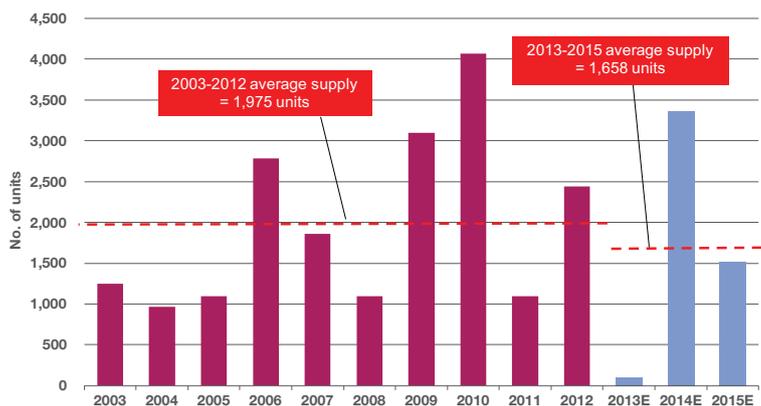
Source: Savills Research & Consultancy
 * Subject to the issue of presale consent from the government.
 ** Estimated unsold units.

GRAPH 4
Number of new residential units transacted, Jan 2007–Jun 2013



Source: DSEC, Savills Research & Consultancy

GRAPH 5
Historical and future private residential supply, 2003–2015E



Source: DSEC, Press Report, Company Announcement, Savills Research & Consultancy

Outlook

The prospects for the market

In addition to the existing cooling measures, home buyers, sellers and agents are having to familiarise themselves with the newly implemented pre-sale law on residential properties and real estate agencies, which has changed the home transaction process, resulting in a short-term low in transactions. However, the new regulations have improved market efficiency by increasing the quality of property transaction services and promoting better risk management for buyers. We believe that these regulations, together with the newly approved amendments to the land law in Q3/2013 will clarify land grants and planning procedures and is expected to take effect next year, increasing the long-term attractiveness of Macau's property market.

Market activity will gradually regain momentum on the back of rapid economic growth in Macau and strong housing demand from local upgraders. Foreign buyers represent less than 5% of transactions currently. In light of the low transaction level in June after the new policies, we believe policy risk is stabilising, although the possibility of new rounds of measures to curb speculation should not be ignored if property prices continue to rise.

We expect mid-luxury sector activity to remain quiet whereas prices will stabilise given limited new supply. In the mass-residential market, strong domestic housing demand will continue to drive price growth, despite generally low transaction levels.

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