

Market in minutes

Macau Residential

September 2015

With little positive news on any front, residential prices are set to remain in the doldrums.

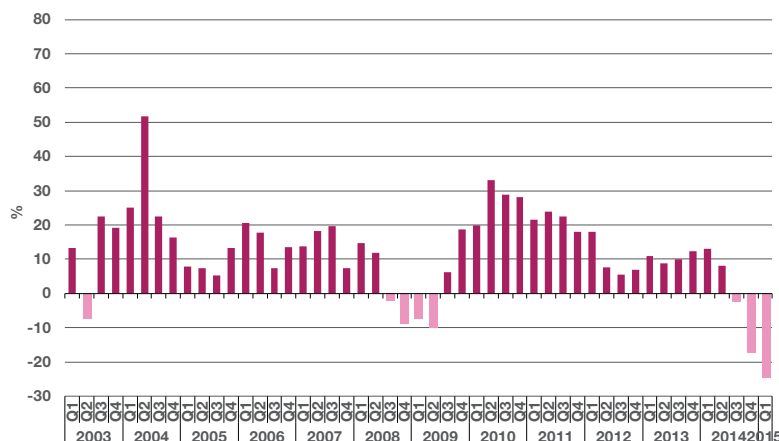
→ Economic overview

Macau's economic growth turned negative in 2H/2014. Year-on-year (YoY), quarterly GDP in Q3 and Q4 fell by 2.3% and 17.2% respectively. The weak performance can be attributed to the anti-corruption campaign in China and the expansion of the smoking ban to main floors of casinos, which has been a blow to the gambling sector. The contraction of the economy continued in Q1/2015, with GDP declining by 24.5% YoY, the largest fall since 2011. The Economist Intelligent Unit (EIU) forecasts that GDP will fall by 24% in 2015 then rebound by 5.3% in 2016 in real terms.

Macau's gaming and tourism sectors have trended downward since 2014, with gross gaming revenue falling by 2.5% to MOP352.7 billion in 2014. Monthly gross gaming revenue has seen negative YoY growth since June 2014, and declined by 36.9% YoY in the first six months of 2015 compared with first half of 2014. With reduced spending on shopping, per-capita spending in Q1/2015 fell by 13.1% to MOP1,802 compared with Q1/2014.

In a rare piece of good news, the overall unemployment rate in Macau rebounded to 1.8% in Q2/2015 and the median monthly income of residents stood at a record-breaking level of MOP15,000 per month.

GRAPH 1
Quarterly real GDP growth (at constant 2012 prices), Q1/2003–Q1/2015



Source: DSEC, Savills Research & Consultancy

HIGHLIGHTS

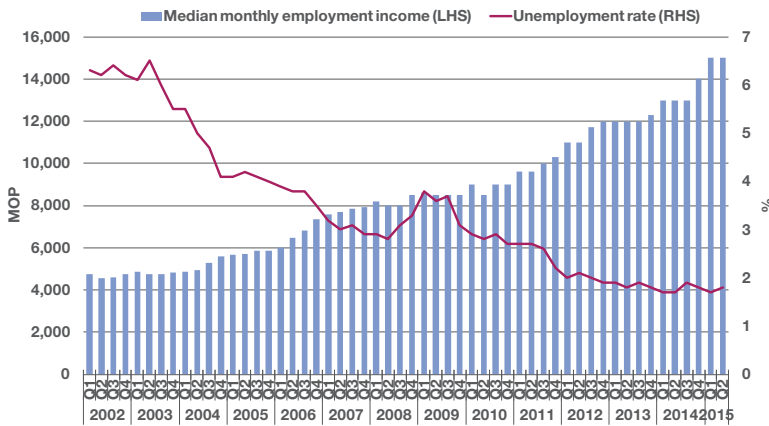
- The weak economic performance of Macau can be attributed to the anti-corruption campaign in China and the expansion of the smoking ban to main floors of casinos, which has been a blow to the gambling sector.
- Some owners have been willing to lower asking prices amid the uncertain economic outlook, and this has translated into a lower average transacted price.
- The recent depreciation of the Renminbi against the local currency and a weakened economic outlook in China will put further pressure on the gaming industry.
- A contraction of Macau's government spending due to decreased tax income from the gaming sector over the remainder of 2015, will further suppress residential prices.

GRAPH 2
Gross gaming revenue vs YoY change in visitor arrivals, Jan 2007–Jun 2015



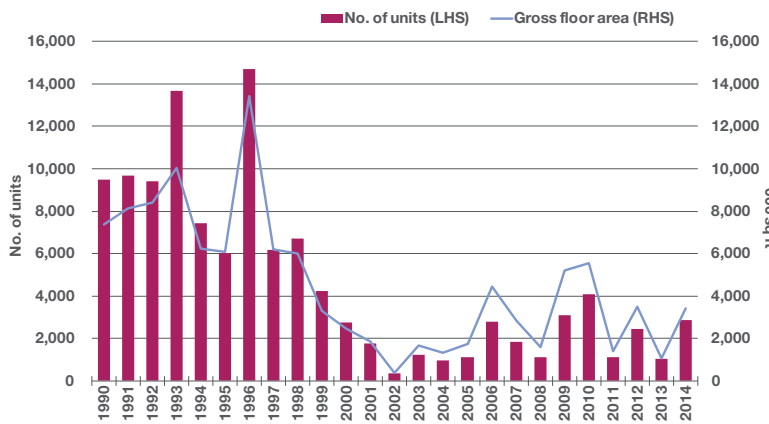
Source: DSEC, Gaming Inspection and Coordination Bureau, Savills Research & Consultancy

GRAPH 3
Quarterly overall unemployment rates and median monthly employment earnings, Q1/2002–Q2/2015



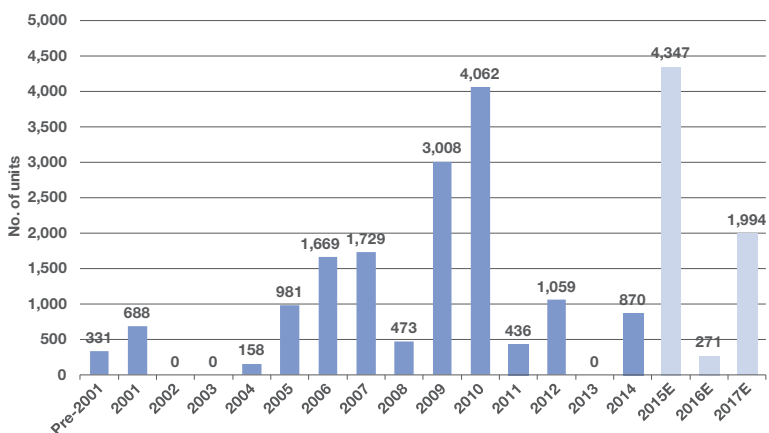
Source: DSEC, Savills Research & Consultancy

GRAPH 4
Completions of residential building units, 1990–2014



Source: DSEC, Savills Research & Consultancy

GRAPH 5
Mid- to high-end residential supply, pre-2001–2017E



Source: Press Reports, Savills Research & Consultancy

Residential market overview

Stock and supply

Completions rebounded by 57% to 2,855 units in 2014 after a fall in 2013, albeit this was still the lowest level since 2011.

In terms of the mid- to high-end segment¹, 870 units were completed in 2014, solely accounted for by One Oasis Phase 1.

Our market intelligence suggests approximately 4,347 units will be completed in 2015. Major projects include One Oasis phases 2 & 3 (1,770 units) in Coloane, and Star River Windsor Arch (817 units) and Nova Park (620 units) in Taipa.

Activity levels

The lack of new launches, together with the new pre-sale law, Special Stamp Duty, Double Stamp Duty and uncertain prospects for the gaming industry, were all factors which conspired to suppress transactions in 2015. The number of residential transactions in the first half of 2015 declined by 33.0% YoY to 2,978 while the total consideration dropped by 40% over the same period.

From January to June 2015, 657 units were pre-sold, compared with 832 units sold in the same period of 2014. The share of total transaction volume has been fairly stable in the last six months, at about 20% of the total volume, except in April when Nova Park was launched.

Price and rental trends

In Q2/2015, the lack of new launches at the top end of the mid- to high-end market caused a decline in transactions in the mass market. In addition, some owners have been willing to lower asking prices amid the uncertain economic outlook, and this has translated into a lower average transacted price.

The mid- to high-end segment has been more heavily hit by the weakened gaming sector. The average transacted price of mid- to

¹ Generally speaking, developments with a majority of units of over 1,000 sq ft, most of which were completed after 2000, are defined as mid- to high-end residential. However, there are only a few developments which can be defined as high-end residential, with standards and facilities comparable to those in Hong Kong, and with views of either Nam Van Lake, Sai Van Lake, the harbour, the Cotai Strip or the racecourse. Examples of high-end developments include One Central Residence, The Manhattan, The Residencia and Le Royal Arc.

TABLE 1
Future mid- to high-end residential supply, 2015–2017

District	Project	Approximate total no. of units
Macau	La Baha No. 1	325
Macau	The Fountainside	42
Macau	M Residence	311
Macau	The Paragon	188
Macau	The Carat	414
Macau	One Penha Hill	63
Macau	One Guia Hill	30
Taipa	Star River, Windsor Arch (Towers 8-10, Phase 1)	360
Taipa	Star River, Windsor Arch (Towers 5-7, Phase 1)	180
Taipa	Star River, Windsor Arch (Towers 1-4, Phase 2)	277
Taipa	The Peak (七潭公路)	262
Coloane	South Residence, One Oasis (Phase 2)	714
Coloane	Park Residence (One Oasia Phase 3)	1,056
-	Others	125
2015 sub-total		4,347
-	Others	271
2016 sub-total		271
Taipa	BT13b	256
Taipa	Nova City (Phase 5)	1,738
2015 sub-total		1,994

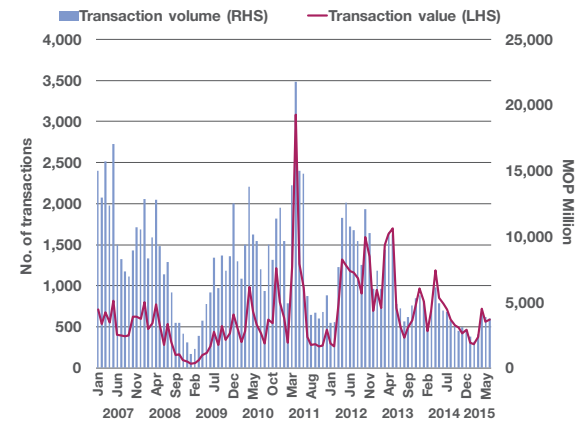
Source: Press report, Savills Research & Consultancy

→ high-end properties fell by 10.0% in 1H/2015. The average overall transacted price rose by 0.6% in the period, reflecting stronger demand from the mass market.

The “Actual Rents Paid by Tenants” component of the Consumer Price Index (CPI) (B) is used as a proxy for residential leasing market movements. The CPI (B) relates to households which had an average monthly expenditure of MOP19,000 to MOP34,999, and is a good reflection of rental trends for private housing.

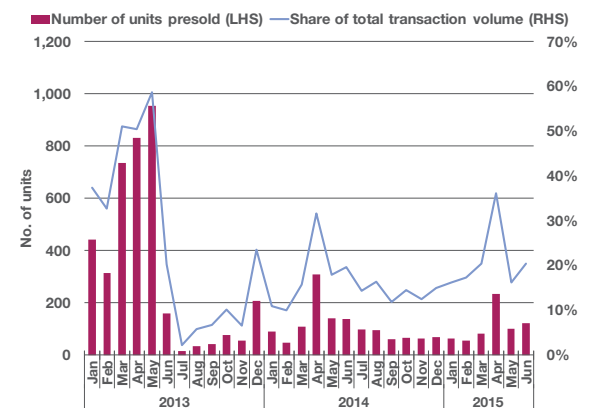
The rent component of the CPI (B) has been rising steadily since 2006. In 2008, growth of 13% was seen over the previous year and rents remained relatively stable over the course of 2009. A rise of 2.0% was recorded in December 2009 over the same period of the preceding year. According to the index, rents grew by 8.3%, 14.4% and 14.3% respectively in 2012, 2013 and 2014. In Q2/2015, rents increased by 1.0% quarter-on-quarter (QoQ), 2.4 percentage points (ppts) lower than the same period in Q1/2014. ■

GRAPH 6
Number and value of residential transactions per stamp duty, Jan 2007–Jun 2015



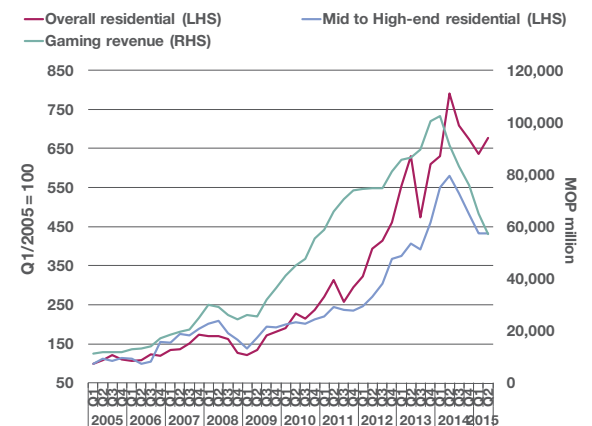
Source: DSEC, Savills Research & Consultancy

GRAPH 7
Number of residential units pre-sold, Jan 2007–Jun 2015



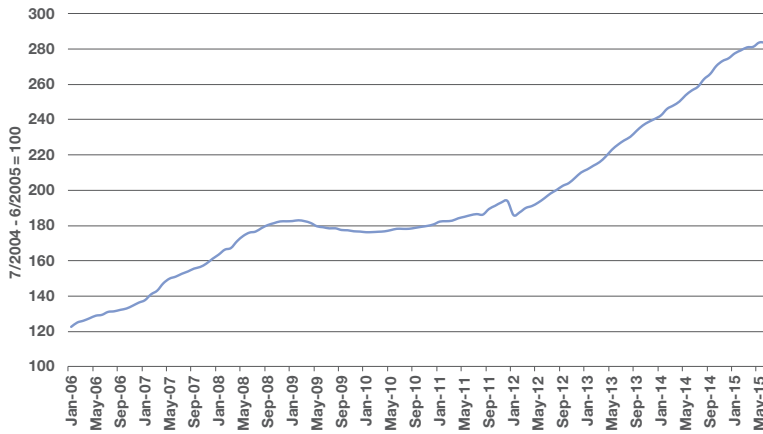
Source: DSEC, Savills Research & Consultancy

GRAPH 8
Overall and mid- to high-end residential transaction price indices, Q1/2002–Q2/2015



Source: DSEC, Savills Research & Consultancy

GRAPH 9
Index of CPI (B) at section level – actual rents paid by tenants, Jan 2006–Jun 2015



Source: DSEC, Savills Research & Consultancy

Outlook

The prospects for the market

We believe that the recent depreciation of the Renminbi and a weakened economic outlook in China will put further pressure on the gaming industry. Meanwhile, a contraction of Macau's government spending due to decreased tax income from the gaming sector over the remainder of 2015, will further suppress residential prices by lowering economic output and prices. We expect sales activity in both the overall and mid- to high-end markets to remain low for the rest of the year, given the uncertain domestic economic outlook and the limited number of new launches.

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