

Macau Investment



Tourism industry leading the recovery

ECONOMIC OUTLOOK - RECOVERY IN PROGRESS

The tourism industry has played a significant role in the economic recovery of Macau. The city's gaming revenue saw an astounding YoY growth of over 300%, reaching 49.3 billion in the first four months of 2023. Moreover, statistical data as of April 2023 indicates that the rebound in gaming revenue has exceeded the quarterly target and is expected to continue its upward trend.

In addition to the impressive gaming

revenue figures, there has been a YoY growth of over 150% in the number of inbound visitors to Macau in Q1/2023, with 4.9 million visitors arriving in the city. The rebound in the hospitality industry has contributed to a decrease in the unemployment rate, which fell from a peak of 5.5% in 2022 to 3.9% in Q1/2023. Overall, these core indicators suggest that Macau is experiencing a positive and ongoing recovery from the adverse impacts of the COVID-19 pandemic.

RESIDENTIAL MARKET STILL SLOW

The residential property market is slowly recovering from its lowest point. According to recent reports, there were 969 property transactions in Q1/2023, representing a YoY growth of 15%, reaching 75% of the pre-pandemic level of 2019. The average transaction unit price in Q1/2023 stood at MOP8,640 per sq ft (saleable area), which is similar to the YoY level but a drop of about 11% compared to 2019. In Q1/2019, there were 211 first-hand residential property sales, but in Q1/2023, the number plummeted to only 4 first-hand sales.

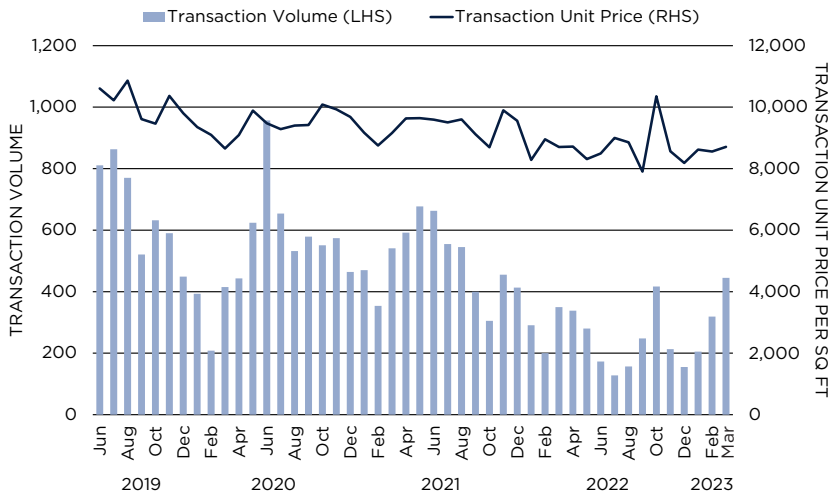
It is believed that the low transaction volume of first-hand properties is due to the decision of developers to avoid selling their properties amidst a mass of uncertainties, including rising interest rates and a relatively weak economy. However, it is worth noting that several developers are now offering aggressive sales plans to activate their sales projects, and it is expected that more first-hand properties will be released to the market in the coming months. This could potentially lead to an increase in transaction volumes and a stabilisation of prices in the residential property market.

VALUE ADJUSTMENT CONTINUES IN THE OFFICE MARKET

The office market continues to face a decline in performance due to insufficient demand caused by a decrease in the number of new company registrations, which has only reached 83% of pre-pandemic levels of 2019. Additionally, the centralization of government office space has contributed to the downturn. In Q1/2023, only 13 office units were transacted, compared to 28 and 21 transactions in Q1/2022 and Q1/2019, respectively. The average transaction unit price for Q1/2023 was reported at MOP7,946 per sq ft (saleable area), which represents a 5% drop compared to the previous year.

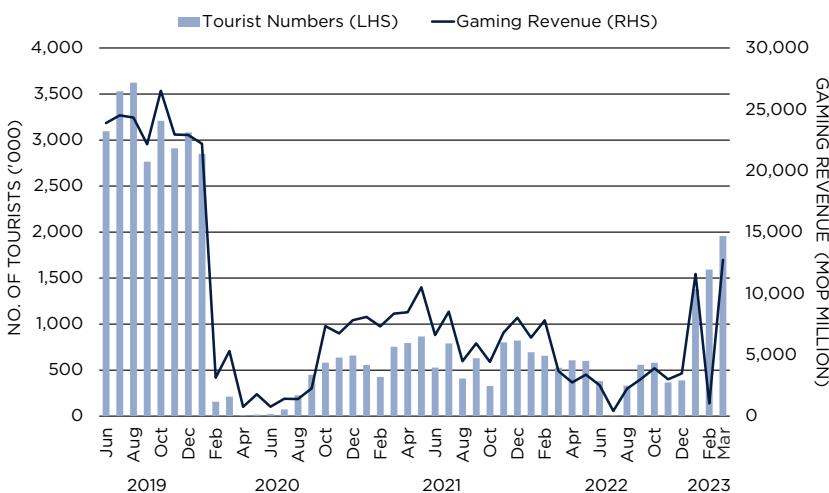
Market information indicates that monthly rental rates for Grade B office properties located in Nape typically fall within the range of HK\$15 to HK\$18 per sq ft in GFA. This typically includes a management fee of about HK\$2 per sq ft per month on average. The capital value for most individual office transactions ranges from HK\$5,500 to HK\$6,000, providing a rental yield of around 2.5% to 3%. For Grade A office properties, monthly rental rates are relatively steady at around HK\$30 per sq ft in GFA, and generally exclude a management fee of about HK\$3 per sq ft

GRAPH 1: Residential Transaction Volumes and Transaction Unit Prices, June 2019 to March 2023



Source: Macau Government, Savills Macau

GRAPH 2: Number of Tourist Arrivals and Gaming Revenue, June 2019 to March 2023



Source: Macau Government, Savills Macau

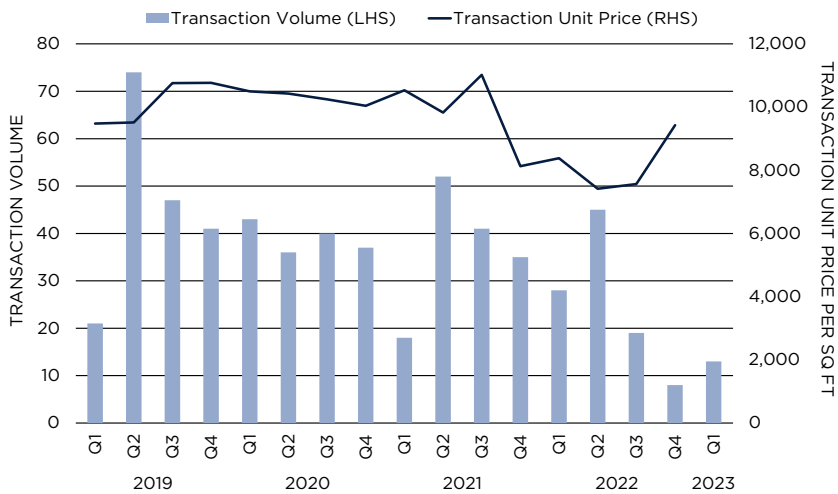
per month in GFA. However, most Grade A office properties are single-owned and not available for strata title sale on the market. From the limited listings available for sale, the asking price is typically about HK\$12,000 per sq ft in GFA or higher.

RETAIL PROPERTIES SUPPORTED BY STRONG TOURISM NUMBERS

With the Macau government’s investment of MOP180 million to boost Macao’s tourism industry in China and overseas, the retail leasing market has experienced a positive impact due to the growing number of visitor arrivals and increasing retail sales volume.

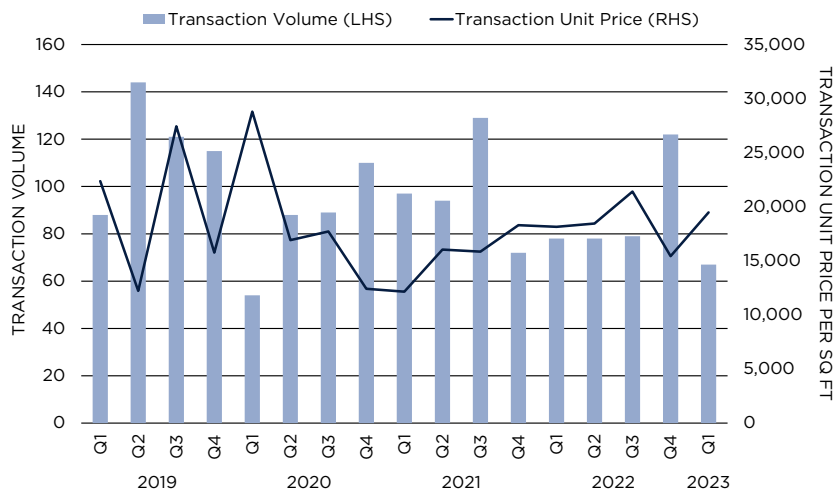
Gaming revenues and visitor arrivals have almost reached 50% of pre-pandemic levels, with crowded streets in tourist districts supporting confidence in tourism-related properties.

GRAPH 3: Number of Office Transactions and Transaction Unit Prices, Q1/2019 to Q1/2023



Source Macau Government, Savills Macau

GRAPH 4: Number of Retail Transactions and Transaction Unit Prices, Q1/2019 to Q1/2023



Source Macau Government, Savills Macau

Retail properties located near tourist attractions such as Senado Square or Rua do Cunha are in demand among business operators, particularly those focusing on tourist spending, including retail and pharmacy brands.

During the COVID period, the vacancy rate of retail premises located on the main streets in Senado Square reached over 25%. However, it can now be observed that most retail units, especially those of 600 to 800 sq ft, are occupied or undergoing fit-out. Those properties with rents below HK\$200,000 per month are the most sought-after on the market, typically taking less than three months to be snapped up by business operators.

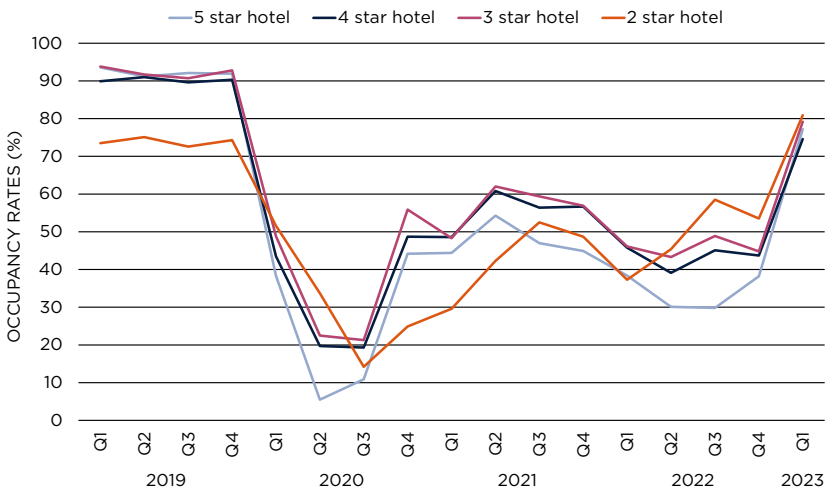
Although Senado Square has seen almost no new retail space in the last decade, a batch of retail units located next to the renowned St. Dominic’s Church have recently been renovated and are ready to lease, providing a saleable area of over 17,000 sq ft and nine units in total. Enquiries and inspections for these spaces have been active.

In terms of transaction volume, 67 retail properties were transacted in Q1/2023, compared to 78 and 88 in Q1/2022 and Q1/2019, respectively. The average transaction unit price in Q1/2023 was MOP19,482 per sq ft (saleable area), which remains similar to the levels observed in recent years, ranging from MOP18,000 to MOP20,000 per sq ft (saleable area).

THE HOTEL MARKET IS ONE OF THE LARGEST BENEFICIARIES

It is expected that the capital value of hotel properties in Macau will stabilize as revenue streams recover. Currently, there are 91 hotels and over 60 guest houses in Macau, offering approximately 37,000 hotel rooms and over 1,500 guest house rooms. In March 2023, the average occupancy rate for two to five-star hotels was 77%, which marks a significant improvement from the

GRAPH 5: Hotel Occupancy Rates by Star Level, Q1/2019 to Q1/2023



Source: Macau Government, Savills Macau

lowest figure of 38% in 2022 but still at least 15% below pre-pandemic levels. Hotel room rates in February 2023 were recorded at MOP1,375.5, MOP902.9 and MOP891.3 for five-star, four-star, and three-star hotels, respectively which represent 20% off Pre-COVID levels.

In addition to the strong performance of

the tourism market, the limited supply of hotel properties is also supporting the hotel market. According to Macau government statistics, there are currently 12 hotel projects under construction, estimated to provide almost 4,000 hotel guest rooms in total, with over 70% of the supply located on the Cotai Strip, which is generally not available

for sale. The hotel properties available for sale, particularly lower-rated hotels or guest house situated on the Macau peninsula, are generally offering an investment yield of 3% to 3.5% EBITDA, which is higher than other property sectors, including residential, retail, or office properties.

CURRENT MARKET CONDITIONS REMAIN FAVORABLE TO TENANTS AND BUYERS

Despite the Macau property market’s challenges, including uncertain global factors such as inflation and interest rate increases, the tourism industry has recently made a significant contribution to the economy. However, the economy still needs time to fully recover. In the current market situation, the upcoming quarters are expected to be more favorable to residential, office, and retail tenants as landlords become more open to negotiation, especially for better known corporate clients.

In the residential market, first home buyers and end-users will continue to represent a large proportion of residential transactions. This is due to the government’s restrictive measures such as additional taxes and lower LTV ratios for non-first home buyers. It is estimated that small units and first home buyers still represent the mainstream of the residential market.



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