

Macau Investment



New policies to revamp Macau’s property market

MACAU GOVERNMENT ANNOUNCES SIGNIFICANT ADJUSTMENTS TO PROPERTY MARKET CONTROL POLICY

In recent years, both industry stakeholders and the general public in Macau have advocated for adjustments to the region’s property market control policy. In response, the government, prior to the 2024 policy address, has announced substantial changes to Macau’s real estate policy. These

modifications focus on two main areas: the elimination of the additional 5% stamp duty for second residential property purchases and the dissolution of mortgage percentage benefits and restrictions for local residents in favor of a unified mortgage limit of 70%. Both measures will become effective from January 1, 2024.

The government anticipates that the removal of the second-property purchase tax and the standardization of the maximum mortgage limit across all residences at 70%

will aid property owners looking to upgrade or alter their living conditions. Without the imposition of punitive taxes, these homeowners will have improved opportunities to do so. However, the acquisition of a third residential property will still attract an additional 10% tax, encapsulating the government’s stance that two residential properties lie within a reasonable range, but owning a third warrants extra taxation.

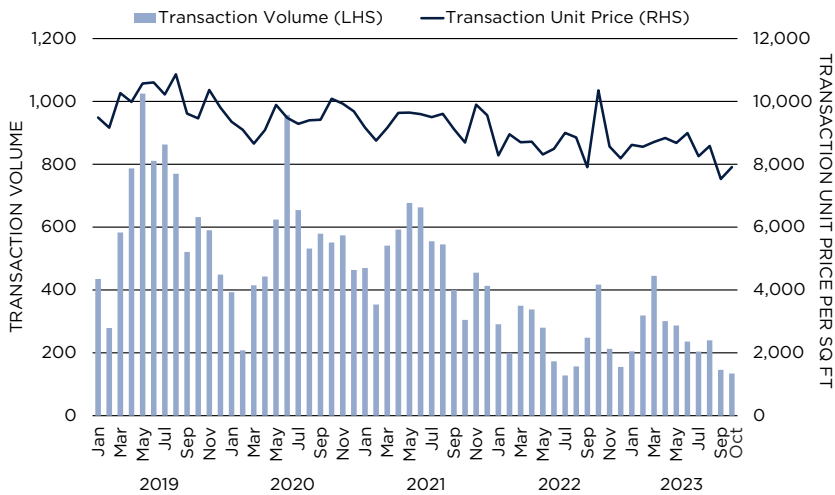
The property market will also be significantly impacted by the revision of the property mortgage ratio. Under the new policy, the mortgage ratio of residential properties valued above MOP 8 million can increase from the former 50% to a maximum of 70%. Conversely, the mortgage ratio for first-time buyers will decrease from the range of 80% to 90% to a maximum of 70%. Since the introduction of the first-time homebuyer policy in 2018, the market has seen a downturn in transactions and prices due to the lower mortgage ratio for properties priced over MOP 8 million, and the burden of additional stamp duty for those already owning properties. The new policy addresses these two factors, leading market commentators to anticipate an improvement in the circumstances for larger units, with expectations for a rebound in transactions and prices.

PRICE REBOUND ANTICIPATED FOR LARGE RESIDENTIAL UNITS FOLLOWING POLICY CHANGES

Residential transaction data since 2013 reveals that the price per square foot of larger residential units has been higher than that of smaller units, with an average higher price of about 20% to 30%. However, this trend started reversing from 2018 due to the first-time homebuyer’s policies. The new policy effective from 1 January 2024 aligns the mortgage ratios for both large and small units, suggesting a potential rebound in the value of larger units from current lows to more reasonable levels.

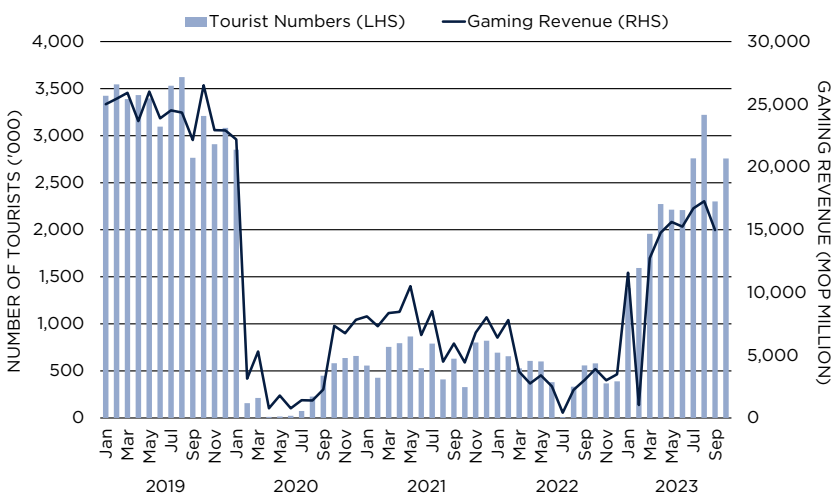
Small units, previously advantaged by the first-home policy’s high mortgage ratio, witnessed a concentration of transactions, driving up unit prices by nearly 20% to 30% within a few years. The government acknowledged that due to policy bias, prices for these units have escalated rapidly. We

GRAPH 1: Residential Transaction Volumes and Transaction Unit Prices, January 2019 to October 2023



Source: Macau Government, Savills Macau

GRAPH 2: Number of Tourist Arrivals and Gaming Revenue, January 2019 to October 2023



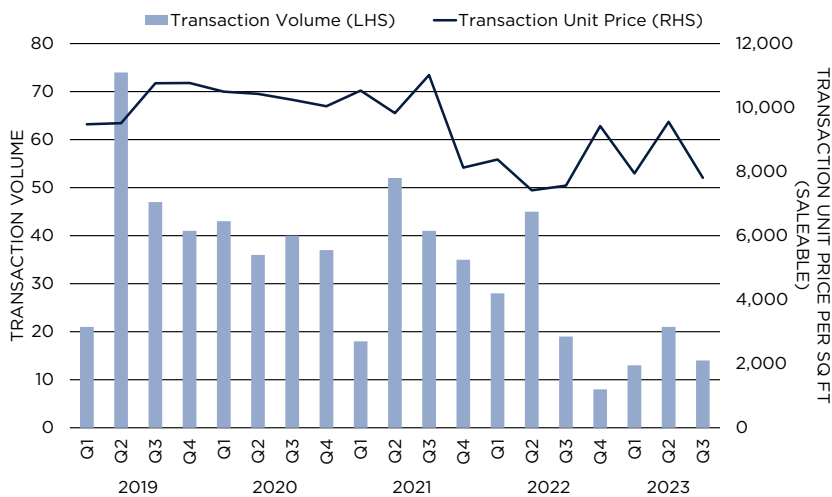
Source: Macau Government, Savills Macau

predict that the new policy's implementation may lead to an adjustment in transaction volumes and a slight price fall for small units, particularly for private residential units priced under 4 million, previously eligible for a 90% mortgage ratio. The reduction in mortgage ratio implies that buyers need to allocate 20% more for the down payment, considerably diminishing the appeal of this segment and potentially leading to significant adjustments.

Since 2018, over 80% of market transactions have originated from low lump sum residential units, resulting in developers primarily focusing on small units. This trend, once deemed logical, may shift with future policy changes as the market will be rebalanced so that more

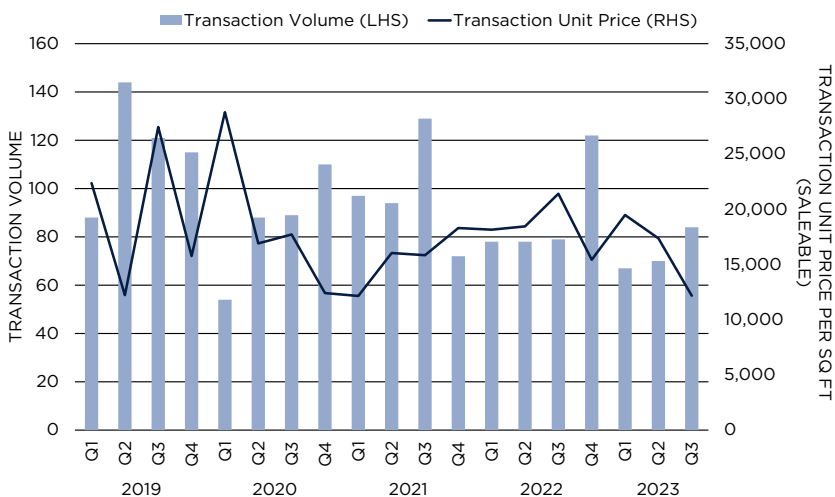
The government, prior to the 2024 policy address, announced substantial changes to Macau's real estate policy. These modifications focus on two main areas: the elimination of the additional 5% stamp duty for second residential property purchases and the dissolution of the mortgage percentage for local residents in favor of a unified mortgage limit of 70%

GRAPH 3: Number of Office Transactions and Transaction Unit Prices, Q1/2019 to Q3/2023



Source Macau Government, Savills Macau

GRAPH 4: Number of Retail Transactions and Transaction Unit Prices, Q1/2019 to Q3/2023



Source Macau Government, Savills Macau

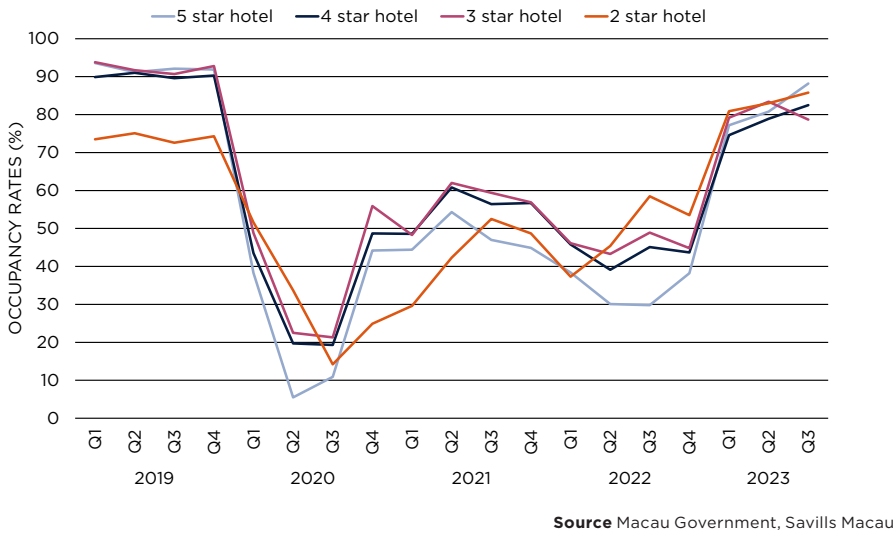
people can purchase properties with a larger lump sum without the restriction of an LTV ratio. While the prices of low lump sum properties may adjust to a reasonable level, for those asking MOP12,000 to 15,000 per sq ft, there may be considerable adjustment in the years ahead.

RESIDENTIAL MARKET STRUGGLES AMID ECONOMIC CHALLENGES AND HIGH INTEREST RATES

Over the first three quarters of 2023, the accumulated gaming revenue of Macau stood at MOP129.4 billion, representing growth of over 400% YoY, while the number of tourist arrivals stood at 19.91 million, indicating a rapid growth of over 450% YoY. However, these two key economic indicators have still not fully recovered to pre-pandemic levels, and are around 58% and 65% of the same period in 2019 respectively, reflecting the fact that the overall environment is turning sharply upward from the COVID period, but has slowed down at current levels.

The residential market has still not recovered as expected, with a transaction volume of 2,354 deals over the first three quarters of 2023, representing an increment of 8.9% YoY, marking another year of low transaction volumes. The average price of residential properties in saleable area stands at MOP8,433 per sq ft in Q3/2023, making it the lowest average price recorded since the downturn in 2016. In terms of rents the latest average rental unit rate reported stands at MOP12.08 per sq ft per month in saleable area, which represents a slight drop of 3% YoY, and also indicates an average rental yield of 1.7%.

GRAPH 5: Hotel Occupancy Rates by Star Level, Q1/2019 to Q3/2023



The office market continues to face challenges, and the total transaction volume to Q3/2023 stands at only 48 deals, representing a further drop of nearly 50% YoY. The average price of office properties recorded stood at MOP7,807 per sq ft in saleable area in the third quarter, as the average rent stands at MOP28.06 per sq ft per month in saleable area, representing a drop of nearly 4.5% YoY, and from the average rental rate and transaction unit price we derive an average rental yield of 4.3%.

Retail markets are also in a relatively weak state with a transaction volume of 221 deals over the first three quarters, representing a slightly drop of 6% YoY. The average unit price at MOP12,175 per sq ft in saleable area in Q3/2023, is below the previous yearly figure of around MOP20,000. In terms of average rental rate, it is reported as MOP46 per sq ft per month in saleable area, representing an average rental yield of 4.5%.



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