



ECONOMIC OVERVIEW

Macao SAR is an open economy highly dependent on its gaming industry as well as the global economy. Battered by the ongoing economic crisis, the economic growth of Macao, mainly driven by the gaming sector, is forecast to slow to 17% in Q308 from Q208, of which GDP growth was 21.1%.

Jobless rate is on the rise. Now having reached the 3.1 level, the distressed Sands is set to take it higher as the Las Vegas firm is to freeze the construction of a semi-built resort by the time it can secure financing from elsewhere. That in turn is going to leave 11,000 local and foreign workers out of job.

By the end of September, there were over 100,000 non-residents working in Macao. The expatriate population is expected to decline 10-20% by the end of the year as a result of project suspension and casino business slowdown.

Partly because of the weakening economy, the shrinkage in gaming revenue has been largely aggravated by travel restrictions as the Central Government seeks to tame overheated growth and curb money laundering. For the first time in six years, the gross gaming revenue recorded in Q308 fell 10.2% to 26.2 billion pataca from Q208. Yet it still represents a decent growth of 27.6% year over year.

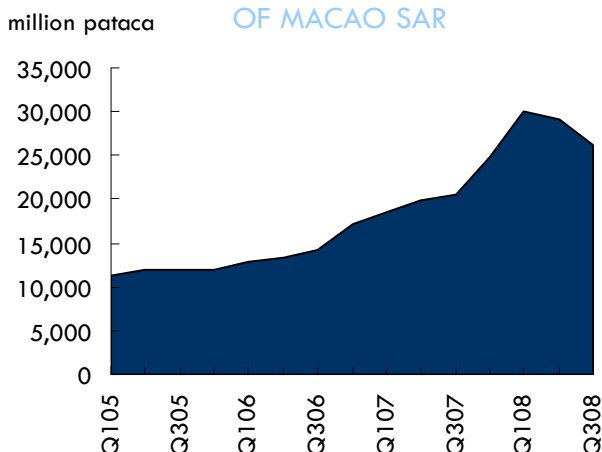
Visitor number stood at 7.56 million in Q308, up slightly 1.9% from the previous quarter. The majority of the visitors came from Mainland China, Hong Kong and Southeast Asia, which accounted for 57%, 28.5% and 4.9% of the total respectively.

KEY ECONOMIC INDICATORS

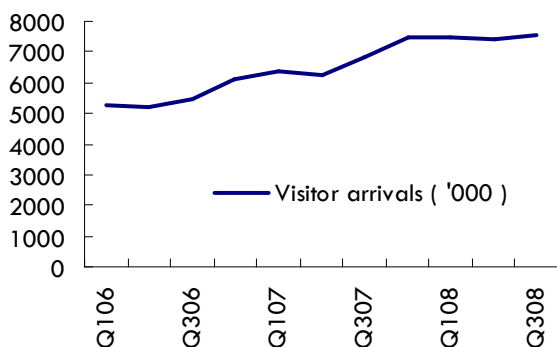
	Q107	Q207	Q307	Q407	Q108	Q208	Q308
Real GDP growth	25.7%	31.6%	30.9%	22.1%	31.6%	21.1%	17% (F)
Inflation (CPI)	4.6%	4.9%	6.1%	6.7%	9.1%	8.9%	9.1%
Unemployment rate	3.2%	3%	3.1%	2.9%	2.9%	2.8%	3.1%
Retail sales turnover (million)	3107	3276	3614	4198	4549	4600	4140 (F)
Non-resident workers	71182	75391	79753	85207	90013	92710	104281
Visitor arrivals ('000)	6368.9	6268.9	6853.1	7502	7506.3	7419.3	7560

Source: The Statistics and Census Service (DSEC), Macao SAR Government

GROSS GAMING REVENUE OF MACAO SAR



VISITOR ARRIVALS



Source: The Statistics and Census Service (DSEC)

Under the tightened Individual Visit Scheme, the number of mainland visitors travelling to Macao declined notably by 24.6% in October year over year.

ECONOMIC STIMULUS PACKAGE

To tackle a wave of foreseeable economic issues, Macao’s chief executive Edmund Ho Hau-wah has introduced a stimulus package worth 10.2 billion pataca along with his policy address to boost the local economy. That includes infrastructure development, tax and mortgage concessions and cash handouts, at least 5,000 pataca, to each Macao citizen.

Hoping to head off a housing market slump, the SAR government has introduced measures to subsidise first-time buyers by guaranteeing up to 20 per cent as downpayment for homes priced less

than 3 million pataca. Interest on mortgage debt of up to 4% will be paid by the government. For this group of buyers, stamp duty will be reduced to 1% from the current 3%.

Let’s apply the new formula to a fairly priced home worth 1.5 million pataca, and see how much a first-time homebuyer can save outright. On a 20-year mortgage, given that the government guarantees 20% of the cost of property, deposit initially the buyer needs to pay equates to 150,000 pataca, with the remaining amount of 300,000 pataca being returned to the government later on.

Suppose that the lending rate is at 5% p.a. at prevailing interest rates. Under the new scheme, a first-time homebuyer with the abovementioned 1,050,000 pataca repayment mortgage will immediately see his monthly payments cut by 2,101 pataca to 4,829 pataca.

Spanning over a repayment period of 20 years and factoring out inflation and interest rate cycles, the buyer will benefit a reduction of total monthly payments of 504,240 pataca, together with an upfront saving in stamp duty of 30,000 pataca.

As exemplified, this government-sweetened deal helps the buyer get on the property ladder that he had missed two years ago – a time before the height in 2007. It also in part helps cushion existing homeowners from dramatic home value declines and as such reduces the number of negative-equity cases next year.

Apart from the property market sweeteners, other economic incentives introduced in the bundle include:

- ◆ Tax rate will be cut by 25% and the tax threshold raised to 120,000 pataca from 95,000 pataca
- ◆ The government will spend 10.2 billion pataca on projects including public housing, urban renewal and railways
- ◆ Extra loans will be offered to SMEs from a pool of 1.5 billion pataca and increase the maximum loan guarantee tenfold to 3.5 bil-

- ◆ A total amount of 320 million pataca in electricity bill subsidies will be offered to households with each receiving 150 pataca
- ◆ 126 million pataca in textbook subsidies of up to 1,500 pataca per student
- ◆ Medical vouchers will be given to all citizens though the amounts have not been specified
- ◆ Each citizen will get a cash handout of at least 5,000 pataca

RESIDENTIAL PROPERTY MARKET HIGHLIGHTS

The number of property transactions plummeted 30% from Q208 to 2,785. If counting the transactions on which homebuyers had paid stamp duty, the figure was 4,229, sliding 40% from that of Q208. Total sales value also fell 36% from last quarter to 7.07 billion pataca.

Of all property transactions, commercial property market saw sales plummet 47%. Home sales also dropped 43% with 2,335 deals registered. By major submarket, Macao Peninsula recorded 1,976 deals, whilst Taipa and Coloane posted 346 and 13 deals respectively.

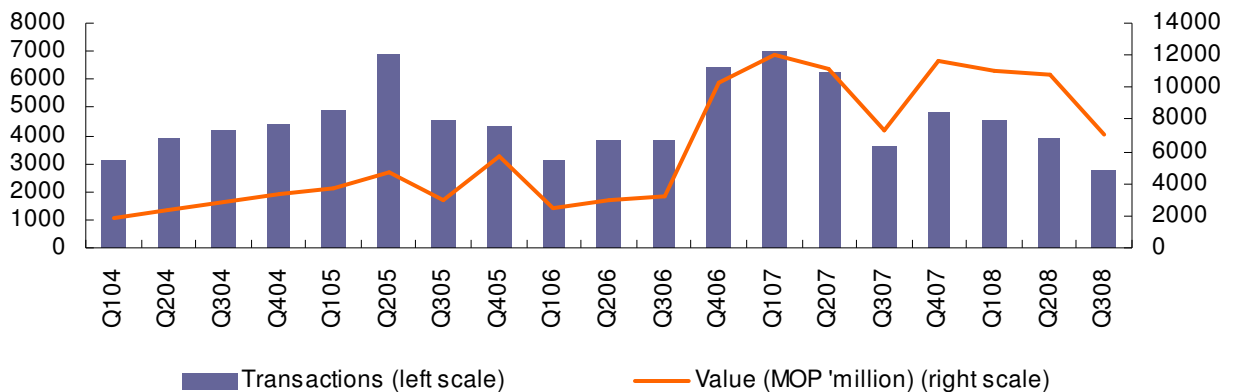
Buy-to-sell transactions, or speculative transactions, totalled 1,980 and accounted for 46.6% of total home sales. Speculative transactions were particularly active in NAPE and Av. de Horta e Costa/Av. do Ouidor Arriaga, accounting for 48.5% and 36.3% of all buy-to-sell deals.

Out of the total completions of 236,000 sq m, only 8,968 sq m of floor space went to the resi-

dential supply, which is 70% less than the supply level recorded the same period a year ago. Even so, newly started projects in the development pipeline comprise a total GFA of 377,000 sq m, astonishingly 10 times that of last year. New residential units to be completed will reach 1,668, 20 times of that of last year. In other words, new home supply will flood the housing market next two years and that is going to drag new home prices down considerably.

The city's housing market peaked earlier this year, and in January alone a total of 2,000 deals were recorded. However, when the SAR government expressed its intention to tame gaming industry growth in April and the new mainland visitor control followed in June, the housing market responded immediately between July and September, and only 423 deals were recorded in September, a record monthly low since 1999.

MACAO PROPERTY MARKET TRANSACTION VOLUME AND VALUES



Source: The Statistics and Census Service (DSEC)

NEW RESIDENTIAL SUPPLY

Development	District	GFA per unit (sq ft)	No. of units	Developer	Completion	
The Buckingham	皇族	Taipa	1,080-4,186	196	Wai Heng Group	Q109
The Residencia Macao	君悅灣	Macao	1,207-2,448	625	San You Dev Co, Ltd	Q308
One Grantai	大潭山壹號	Taipa	1,944-5,351	856	Sai Kei Hou Yuen (Kuok Chai) Real Estate Dev Ltd	2010
One Central Residences	壹號湖畔	NAPE	654-3,006	796	Sun Tak Group & Hongkong Land	Q409
The Praia	海擎天	Macao	1,580-1,727	1,288	New Tenhon Investment Limited	Q408

Average home prices of the whole city declined 15.6% in Q308 to 1,080 pataca psf, or fell 18.3% on a year-over-year basis.

By major submarket, Macao Peninsula's prices were flat compared to the last quarter, averaging 1,100 pataca psf. Taipa and Coloane however saw prices decrease by 8.3% and 3.1% from Q208 to 1,580 pataca psf and 1,486 pataca psf respectively.

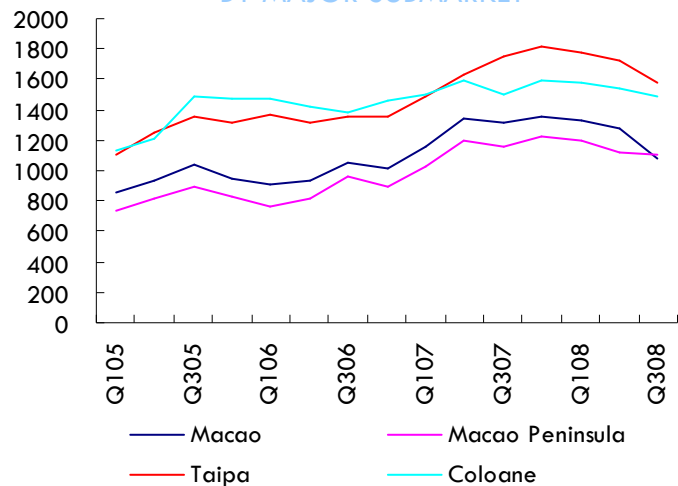
Looking closer at some bluechip housing estates, average prices at Nova Taipa Gardens and Supreme Flower Garden respectively fell 11.7% and 6% to 2,118 pataca psf and 2,613 pataca psf. As for newer developments such as Nova City and La Cite, prices followed the overall market decline by dipping 1.3% and 10% respectively.

Bucking the downtrend, average flat prices of Ocean Gardens and La Baie Du Noble were both up 4.9% and 6.6% from Q208, reaching 2,601 pataca psf and 2,974 pataca psf.

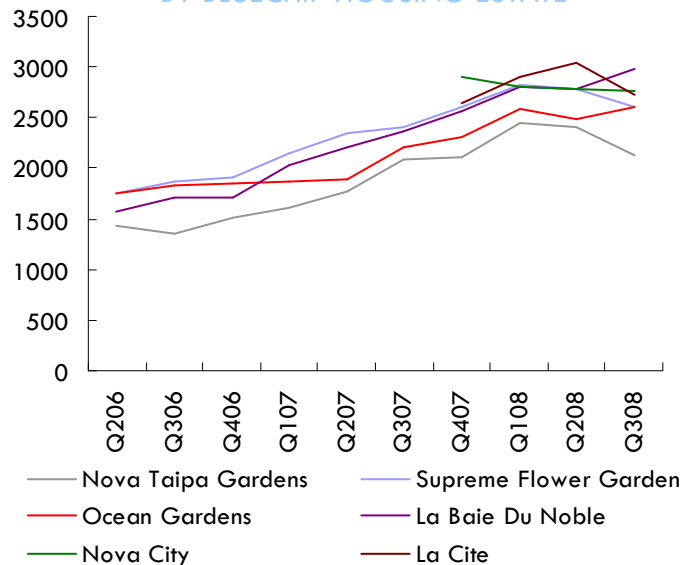
LUXURY SECTOR

Macao's luxury property prices plunged 20-40% from their all-time heights in Q108. Slowing transaction volumes were a result of the global financial crisis as well as tightened restrictions on mainland visitors

AVERAGE HOME PRICES BY MAJOR SUBMARKET



AVERAGE HOME PRICES BY BLUECHIP HOUSING ESTATE



Source: Vigers Research

decreased by 30%. The dramatic fall in prices was triggered by the stampede of speculators to offload their properties.

Rumour has it that Iceland's largest insurer, Sjóva-Almennar Tryggingar, intended to withdraw from the deal to acquire a 68-unit block under construction at One Central Residences. But one of its developers Shun Tak reiterated in late October that the deal would be closed in due course.

Now that overseas buyers have retreated, who used to account for more than 60% of total sales over the past few years, luxury home prices are nearing the bottom while further declines are unlikely.

Macao SAR government will be celebrating the 10th anniversary of unification next year, by that time economic crisis may have eased, and we expect to see latent demand from investors looking for good deals at bargain prices.

GRADE-A OFFICE & RETAIL PROPERTY MARKET HIGHLIGHTS

A total of 638 new companies were incorporated in Q308, down 27.1% year-on-year, with the total registered capital declining by 62.5% to 66 million pataca. Meanwhile, the number of dissolution of companies was 99, involving 29 million pataca in registered capital. Among the companies in dissolution, 35 were operating in Wholesale and Retail and 24 in Real Estate.

GRADE-A OFFICE MARKET

Macao's prime office market is a relatively new sector, currently with only fewer than 10 qualified Grade-A office buildings available on the rental and sales markets. Vacancy rates are estimated at 10-20% among these office blocks.

Rents of Macao Landmark offices rose about 50% between 2006 and 2008, estimated at 13 pataca psf by the end of September. Zhu Kuan Building, situated on a prime NAPE waterfront, also saw rents soar from 4-5 pataca psf in 2006 to 12 pataca psf in 2008, which is now home to a number of operation offices of casinos and retailers.

Compared with the luxury residential sector that has gone through price rally in 2008, the prime office sector was able to defy the housing market downturn. In longer term this sector, now in its initial stage, should offer more room for growth in terms capital values and rental income, on the back of Macao's economic development, government's plan to diversify the city's economic structure, and the future project of Hong Kong-Zhuhai-Macao Bridge.

RETAIL PROPERTY MARKET

Retail property rents were down 10-20% from the peak earlier this year, but confidence remains among retailers as yet. The city's busiest shopping area, Largo do Senado, maintains a very high occupancy level and newcomers take up the premises once they are vacant.

Though the number of mainland visitors declined by 24.6% in October from a year ago, a growing number of visitors from other regions of Asia continue to patronise the retail businesses and help fuel the retail market.

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