

Macau Property Market Quarterly Snapshot

Q4, 2010

Vigers Research

Market summary

At the end of Q3 10, the Macau Government announced a string of six new measures to curb rising property prices in the territory. The transaction was down 12.8% at once in October, as the buyer would like to wait and see the impact on the residential market.

However, the atmosphere changed quickly from silent to active in November, the sales volume was rebound 38.6% from October, which is the second high record in 2010. One of the reasons was that the buyer wanted to purchase the house before the compression of the mortgages which carried out in December.

At the end of December, Macau Government conferred the Macau LRT system Phase I contract to Mitsubishi Heavy Industries Company. The construction stage will begin at the second quarter of 2011. They expect that the LRT system will be completed in 49 months.

Although the opening of the LRT system is far away, for now, it has already provide some benefits to Macau and the property market, such as raising the demand of the non-resident workers, hereafter increase the demand of housing, which then push up the prices and rents.

After the completion of system, those properties around the LRT system will climb up due to the increasingly convenience. Similarly in Hong Kong, the property near MRT is much more expensive than the others.

At last, the LRT system will bring more benefits to the property both short and long run.

Economic overview

In December, Statistics and Census Bureau (DSEC) changed the calculation method of the real GDP growth %. After the adjustment, the GDP is lower than before. For the first, second and third quarter, Macau's GDP were 17.2%, 31.5% and 27.1% year-on-year respectively. The increase included 45.4% year on year growth in exports of gaming services, and the total visitor spending (exclude the gaming expenses) increased 24.6%, according to figures released by the DSEC.

The gaming revenue growth will increase above 50% year-on-year in Q4 10, the Macau economic growth will remain extraordinarily strong which will probably rise to 28.5% in terms of real GDP growth in Q4 10.

The major indicator jobless rate between September and November has slightly decreased to 2.8%. As there are more job openings on the market, and most of the fresh graduate students are absorbed by the labour market. In December, we expect that the jobless rate will stand at the same level, and will decrease to 2.6% in 2011.

As many infrastructure projects are set to commence, the labour market of skilled labour will face shortage soon. Therefore, the Macau Government raised the import of non-resident workers from overseas, including Hong Kong.

The number of non-resident workers increased 3.3% to 74,525 in Q3 10 and we predict that it will increase to 75,200. At the end of 2011, the figure may increase to 80,000-85,000.

Key economic indicators

	Q409	Q110	Q210	Q310	Q410 (F)
Real GDP growth %	+18.5	+17.2	+31.5	+27.1	+28.5
Unemployment rate %	3.3	2.9	2.9	2.9	2.8
Inflation (CPI) %	-0.2	1.5	2.7	3.1	3.9
Non-resident workers	74,905	72,843	72,142	74,525	75,200
Retail sales turnover	6,530	6,923	6,865	7,542	7,872

Source: The Statistics and Census Service (DSEC), Vigers Research

In Q310, retail sales volume grew 35.1% on year, by the rise in leather products (+71%), car sales (+37%), watches and jewelry (+36%) and pharmacy goods (+35%). For the quarter basic, retail sales volume rose 9.9% from Q210, which personal hygiene products and leather products increased 19% and 18% respectively.

As the prosperity of the Macau economic remained, and the tendency of visitor arrival continue upward, we forecast that the retail sales volume will climb 4.4% to about MOP 7.87 billion at Q410.

The total visitor arrivals, which increased by 15.1% year on year to 22,694,110. In particular, same day visitors accounted for 52.9% of the total visitor arrivals, and 1,096,865 visitors coming from Mainland China in November.

Visitors from Mainland China were up 20.5% to 12,028,734, while those from Hong Kong (6,798,544) and Taiwan (1,186,987) increased by 11.0% and 0.7% respectively. However, the growth rate of Mainland China and Taiwan was decreasing. Hence, we believe that the number of visitors of the four quarter would decline 3.2% from Q310 to about 6,157,865. In 2010, the total amount would be 24,746,444 which an increase of 13.8% compared with 2009.

The positive signs of Macau's tourism continue, as the total visitor arrivals will increase 8-10% in 2011.

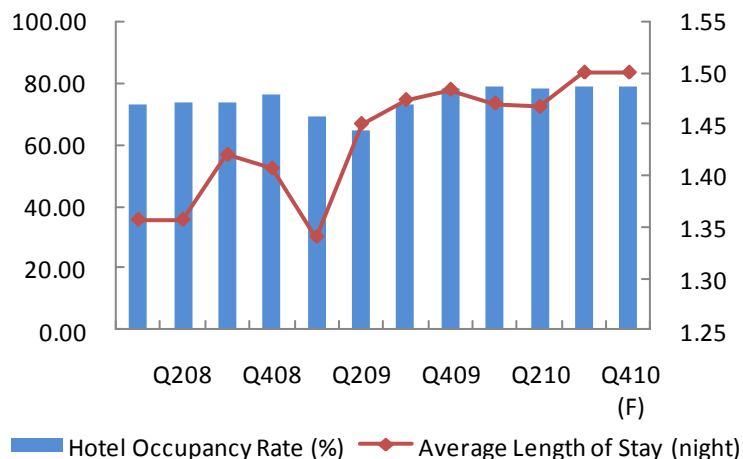
In the hotel sector, the average hotel occupancy rate reached 78.4% in October, with five-star hotels' staying is 78.7% and the four-star hotels' staying is 80.5%. The average length of stay stood at 1.5 nights. For the available rooms, there were 19,849 units of rooms available in October, which is an increase of 7.6% year-on-year. As more and more new hotel will be completed in the next years, we believe that the available rooms will be on an upward trajectory.

Gross gaming revenues, based on the year-to-November figures, are forecast to grow 15.7% from the third quarter, which will hit a new record of 2010. On a year-over-year basis, the growth rate is about 57.3%. In 2011, we expect the growth of gross gaming revenues will flatten in the next year, to about 5-10% increase with MOP 200-210 billion. In the average basic, the revenues are 16.6-17.5 billion per month.

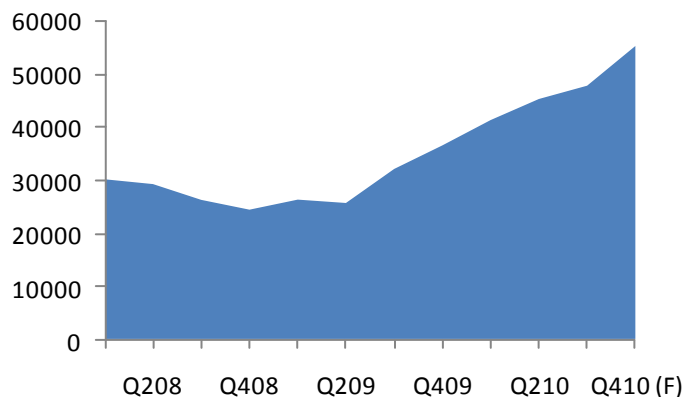
Visitor Arrivals



Hotel occupancy and average length of stay (night)



Gross gaming revenues



Source: The Statistics and Census Service (DSEC), Vigers Research

Residential property market

Residential property transaction volumes had hit record levels in April, but since then sales took a definite downturn. However, the sales volumes rebound from the lowest point after August. The transactions increased 93.4 % from August to 1,818 units being transacted in November.

In November, home sales volume and turnover were 1,818 units and MOP 7.568 billion respectively, the sales value was the highest level since 2010, as the buyer want to purchase the house before the compression of the mortgages. Based on our forecast, transaction volumes would reduce to the normal level in December, residential property transaction volume and value in Q410 will likely decrease 21.4% and 72.7% respectively from Q310.[please refer to the chart below].

On the year-on-year basic, the total sales volume and turnover were expected around 17,235 transactions and MOP 43.93 billion in 2010, which raised 52.4% and 104.2% respectively compared with 2009.

The proportion of home purchases by non-residents climbed to 57.5% in November, due to the new project attracted the non-residents to invest the residential market, and the expectation of the rents will increase as the non-resident workers and the demand of the rental markets increase. As a results, the transactions in November increased rapidly.

2011 Outlook

The Macau Government has no further action to interfere the market, and the measures announced before are much moderate compared with Mainland China and Hong Kong. These will attract the hot money to influx to the Macau property.

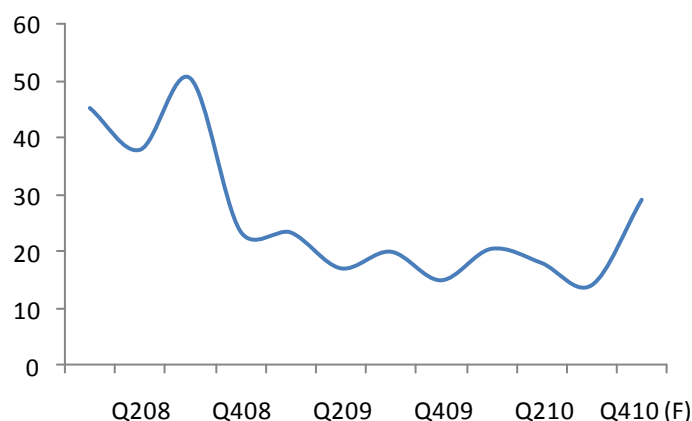
Most economists predict that the US interest rates will remain low throughout this year, thus, the Macau Government does not have any actions in its arsenal to reverse the cycle.

On the supply front , the number of new building units started to decrease from 2007 with more than 4,000 units in a year to near 1,000 units in 2010. The figures show that the supply of property market will decrease in the coming year.

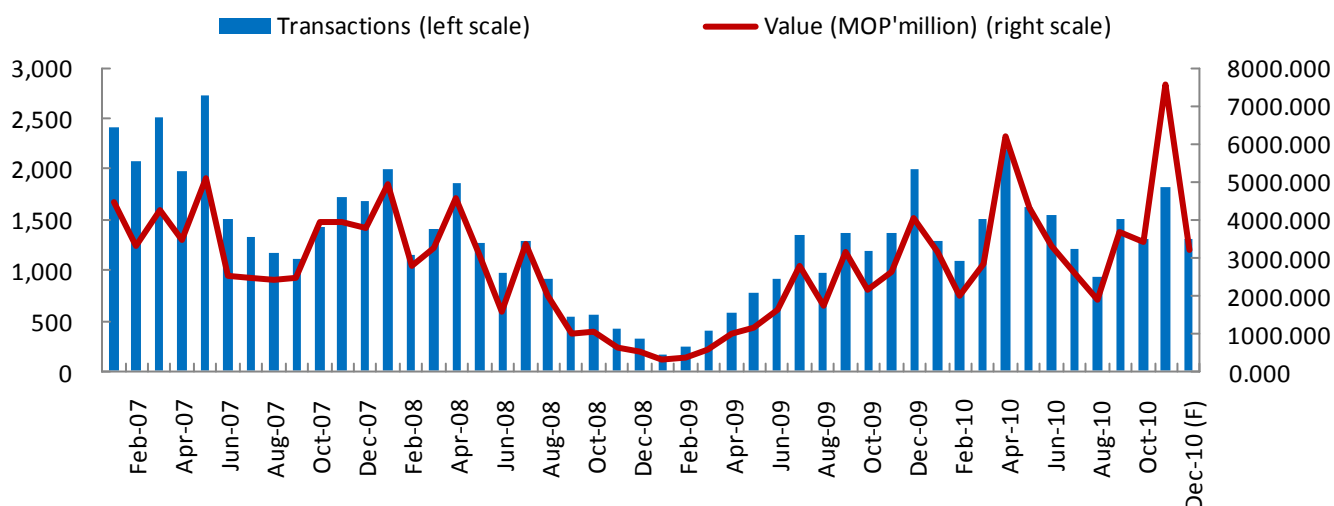
The public facilities will become more perfect as the LRT system and the project of “ Hong Kong, Zhuhai, Macau Bridge” were begun, which will support the prices of those property around and increase the housing demand of non-residents.

Combine with the factors, low interest rates, influx of hot money, unbalance of supply and demand, we are optimistic that mass residential prices and rents will climb a further of 8-10% for 2011. The residential sales volume and value will up to 18,000-18,500 transactions and MOP 47.5 – 50.0 billion respectively in 2011.

Proportion of home purchases made by non-residents (%)



Macau home sales volumes & values



Home prices by major submarket

According to the latest figures in DSEC as at Q310, the average home price in Macau Peninsula rose 7.2% from Q210 to Q310, which is about 2,748 MOP per sq ft.

In Taipa, the average home price was also 2,748 MOP per sq ft, that is up 4.3% from Q210. On an annual basis, the price increased 23.8%.

For the Coloane, the average price increased 272.9% from Q309 to about 5,953 MOP per sq ft. On monthly basis, the price rose 7.7%. In this segment, price growth is the highest by comparison.

For Q410, we predict that the price in Macau Peninsula, Taipa and Coloane will separately raise 2.9%, 3.8% and 1.3% compare with Q310, as the basic factors continue well, and the government haven't any severe measures to against the residence market like Hong Kong.

Home prices by square footage

The figures at Q310, sales of luxury homes measuring over 1,610 sf of gross floor area raise 16.9% from Q210. On an annual basis, the price growth was 19.9%.

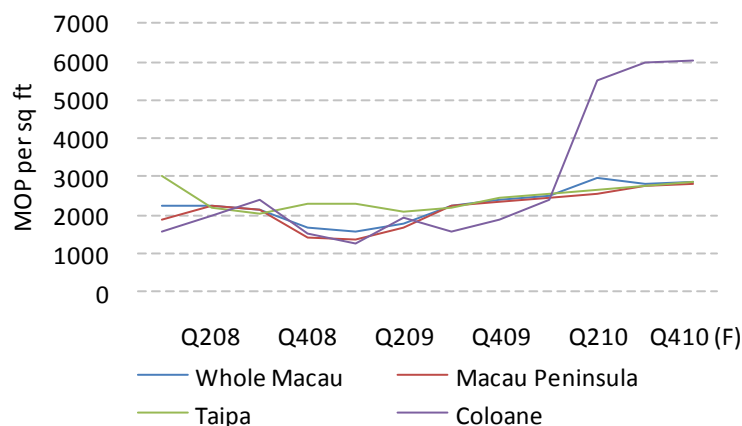
The average price of mid-sized homes at 1,075-1,610 sf fell 12.9% within a quarter, there is an increase of 24.6% compared with a year ago.

Prices for 505-1,075 sf homes reduce 10.7% quarter on quarter, which rise 22.6% year on year. Although the percentage of price decreases up to 2 digits, the decreasing ratio is the smallest by comparison.

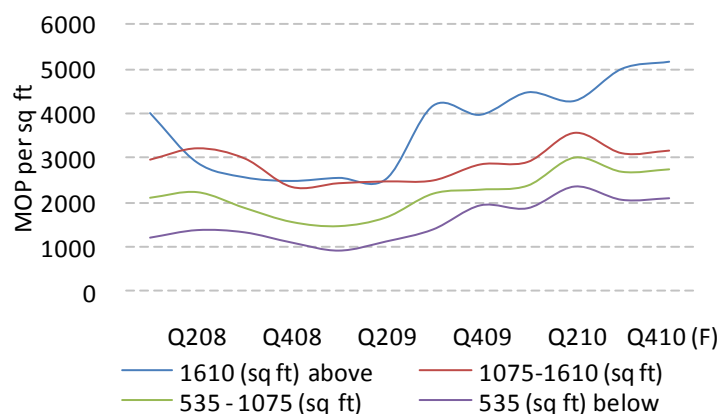
The average price of one-bedroom apartments which is smaller than 535 sf was down 12.7% in Q310, and was up 47.9% on last year. However, the growth in annual basic is much less than Q210 in this segment. (111.3% reduce to 47.9%)

After the big decrease of prices for 1,075-610 sf , 505-1,075sf and smaller than 535, we forecast that those size of house will have a slightly rebound up to 2% in this 3 sector. In our expectation, the price of luxury homes over 1,610 sf will raise 3.1% from Q310, as some new projects e.g. "The Residence & Apartments Mandarin Oriental Macau" sold at a high price in Q410.

Average home prices by major submarket



Pricing levels by square footage



Source: The Statistics and Census Service (DSEC), Vigers Research

Secondary Market

Secondhand sales were up 16.1% month-on-month, to 1,005 transactions in November. Turnover increased 16.8% to MOP\$ 1.56 billion over the month.

From January to November, the transaction units were 10,578 and turnover was MOP\$ 14.57 billion or rose 62.5% and 109.6% over the same period in 2009.

An average flat in the city was priced at MOP\$ 3,370 psf in Q410, up 7.5% compared with Q310. In year basic, Q410 was 16.6% higher than Q409.

New home sales

The rate of new home sales climbed 82.3% from October, to 813 transactions in November. Aggregate transaction value increased 121.2% to MOP\$ 7.57 billion as there is a new project for sale in November, e.g. "Sai Van".

In the year-to-November, new home sales rose 64.4% to 5,457 units, turnover was up 112.7% to about MOP\$ 26.36 billion respectively, compared with 2009.

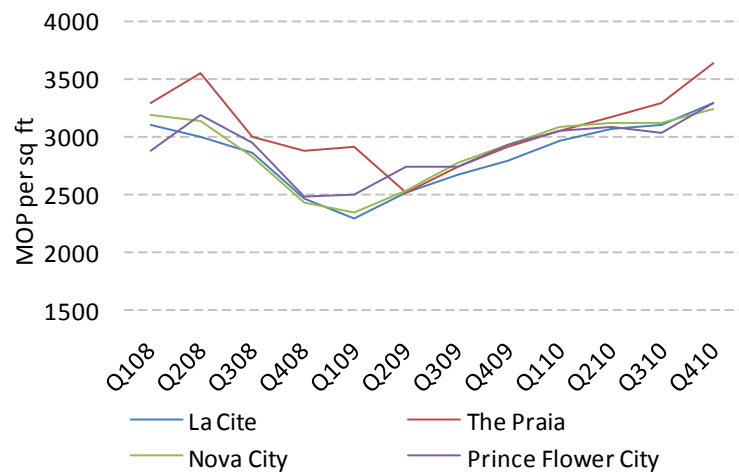
Prime residential

The typical luxury flat sold at MOP\$ 5691.5 psf, down 2.3% from a quarter earlier, or produced a year-on-year gain of 10.4%

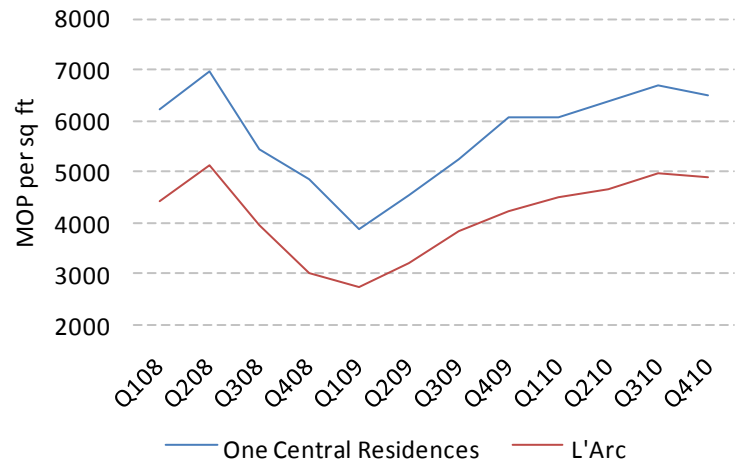
In December, the new luxury projects "The Residences & Apartments Mandarin Oriental Macau" came into the market with an average price of MOP\$ 8,546 psf.

We expect that the luxury projects came into the market in 2011, such as Phase 4 of "Nova City" and "One Guia Hill" also the "One Grantai" will be in occupation in 2011, which will become a sharp point of the luxury market in Macau. Therefore, we forecast that the pricing levels of the luxury homes will continue uptrend to about 5-10% upward.

Average flat prices by housing estate



Average flat prices by prime housing estate



Source: The Statistics and Census Service (DSEC), Vigers Research

Commercial property market

Firms incorporated and dissolved

	Q309	Q409	Q110	Q210	Q310	Nov10
No. of new companies incorporated	651	674	694	778	782	270
- Wholesale and retail	224	271	251	300	312	105
- Business services	122	106	133	165	164	64
Registered capital of all new companies ('000 MOP)	74,668	140,074	88,172	135,786	206,386	30,136
Companies in dissolution	95	123	128	125	120	40
- Wholesale and retail	30	33	39	57	31	-
- Business services	19	21	25	17	20	-
Registered capital of all dissolved companies ('000 MOP)	14,115	1,931,500	26,315	66,398	10,299	4,675

Source: The Statistics and Census Service (DSEC)

In Q310, a total of 782 new companies were incorporated, representing an increase of 20.1% on last year. Total registered capital rose 176.4% to MOP 206 million over the same period.

Of all start-ups, the wholesale and retail businesses and business service providers were account for over 60% of the total registrations.

Meanwhile, a total of 120 companies with a total registered capital of 10 million MOP were dissolved over the same period, and decrease of 4% and 84.8% respectively from Q210.

During the first 3 quarter, the number of new companies incorporated was steady increase 12.3%. The number of companies in dissolution was decreasing from 128 units per quarter to 120 units per quarter.

The result showing that, the economic in Macau continues to prosper, which is an advantage to support the price increase in the office and retail property market.

Grade A office property market

The Macau office market was relatively underdeveloped, but the transactions were exuberance this year. According to the DSEC, the transactions volume and value in first 11 month of 2010 increased 112.5% and 182.3% compared with 2009, to 612 transactions and MOP 1.21 billion.

We forecast that the transactions units and the turnover will climb to 632 units and MOP 1.23 billion to the end of 2010. But the market has not yet returned to the transaction level of 2007.

Although the office market was exuberance in 2010, the average price of Grade A office market did not have any big difference during the year. The average rental rate for a Grade A office in Macau stood at MOP 13-15 per sq ft per month, which is about MOP\$ 2,300-2,500 per sq ft.

As the vacancy rate is very high, no matter the supply is low or none, the demand is steady increase in 2010. Nevertheless, the vacancy units are not fully digested by the up take. Hence, the prices and rents are stable during this year.

For the coming 2011, we forecast that the price and rents of prime office market will remain steady, and we believe that even with the investment demand from investment funds return to the Macau office sector it also takes some years for the market to absorb the excessive stock.

Prime retail property market

The retail property market was sharp in 2010, as the transactions and turnover break the all-time records. For the statistics between Jan to Nov in DSEC, the sales volume rose 25.0% to 1,939 transactions and the sales value increased 84.3% to MOP\$ 4.69 billion compared with 2009. We believe that the transactions volume will be 1,059 units and the value will increase to 4.90 billion in 2010.

The three fundamental factors will continue to drive the prime retail rents and prices in 2011. Firstly, retail sales volume grew near 30% over the year of 2010. Secondly, the average income per person increased from the average MOP\$ 8,650 in 2009 to MOP\$ 8,850 in 2010. Thirdly, the number of visitors was up 13.8% compared with 2009. If the economy will not change, those factors will support the retail property market.

In 2011, the three factors combined will likely drive the prices and rents of retail property in tourist area to grow 15-20%.

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