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Investment

Macao, China



The Investment Market

Slowing economic growth in 1H/2009

Economic growth in Macao is slowing as Macao's tourism and entertainment sectors, the two key economic pillars of the SAR, have been hit hard by the global economic slowdown since September 2008.

The number of inbound visitors has continued to shrink in the first half of 2009. Monthly visitor arrivals have recorded negative year-on-year growth for five consecutive months since February with total visitor arrivals dropping by 11.3 per cent in 1H/2009 compared with the same period last year. Gaming receipts also declined by 12.3 per cent over the same period. Macao's GDP slowed by 12.9 per cent quarter-on-quarter in real terms in the first quarter following a 7.6 per cent contraction, the first consecutive quarterly negative growth seen since Q3/1999.

Investment activity regains some momentum

The downturn in the global financial environment combined with the uncertain outlook for the domestic economy has had a sobering impact on the property investment market both in terms of prices and volumes. Investment sentiment in Macao's property market inverted in the latter half of 2008 and sales activity remained subdued at the beginning of 2009. According to stamp duty records as reported by DSEC (the Statistics and Census Service of Macao), the number of property transactions in January 2009 fell to 311, the lowest monthly level since records began.

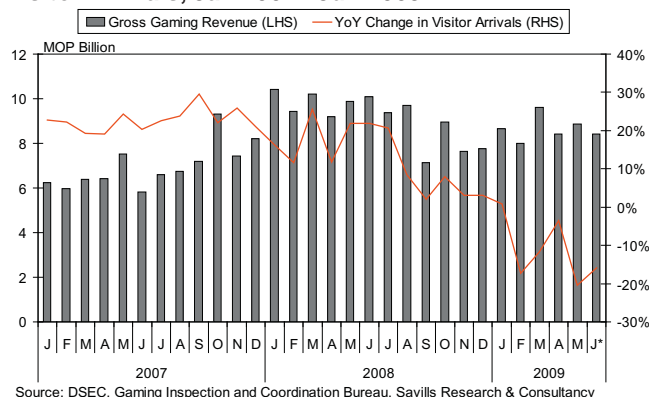
Transaction activity regained some momentum towards the end of the first quarter, with over 3,013 property transactions recorded in the three months from March to May 2009, rebounding by 161 per cent (1,152 transactions) over the previous three months period. The government's stimulus package to subsidise homebuyers is believed to be a key factor behind the improved figures as the number of home sales jumped by more than 1,000 to 1,747 according to stamp duty records in the same three-month period.

Residential market stabilizes

Amidst a cooler market, developers held back new launches and marketing campaigns for new projects, resulting in a slower primary sales market compared with the boom in early 2008. A total of 877 new residential units were transacted in the first six months of 2009, down by more than 78 per cent compared with the same period in 2008. Sales activity in recent months has been focused on the secondary sales market.

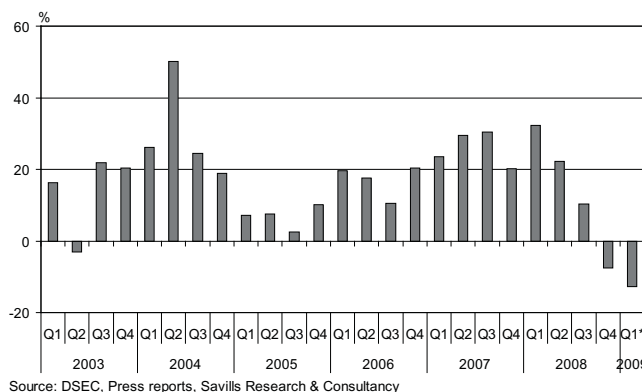
Following months of price correction, average transacted prices of residential properties in Macao have bottomed out and stood at HK\$1,707 per sq.ft. of usable space in Q2/2009, up by over 10 per cent from the preceding quarter.

Gross Gaming Revenue versus Year-on-Year Change in Visitor Arrivals, Jan 2007 - Jun 2009



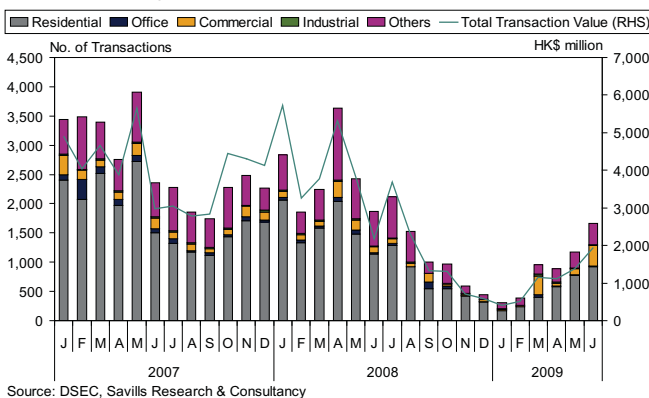
* Provisional Figure

Quarterly Real GDP Growth, Q1/2003 - Q1/2009



* Provisional Figure

Number and Value of Building Units Transacted per record of Stamp Duty, Jan 2007 - Jun 2009



New mid- to high-end residential units in Macao have sold at a significant premium compared with the average market. According to our market intelligence, the mid- to high-end residential market in Macao also showed some early signs of recovery in Q2/2009 with average transacted prices rising by 6.7 per cent compared with the previous quarter. For instance, One Central Residences, one of the newly developed luxury residential developments, recorded a 14.5 per cent increase in average transacted prices over Q2/2009 after a 37.5 per cent correction over the nine month period from a peak in Q2/2008.

Office market shows early signs of improvement

Following a similar trend to the residential market, the office sales market in Macao declined in early 2009. The total number of office units transacted dropped by 66 per cent in the first six months of 2009 compared with the same period in 2008. However, average transacted prices of office properties increased moderately by 2.8 per cent in 1H/2009 after falling by 21 per cent in 2H/2008. Average office transacted prices stood at HK\$1,764 per sq.ft. of usable space in Q2/2009.

The office market of Macao is small and quality buildings are traditionally rare. The tight supply in the office market is expected to continue as there are no new private office projects approved by the government. The demand for high-quality office space will therefore continue to be met by renovation or refurbishment of existing office properties. Examples of this trend include AIA Tower, Finance & IT Centre, Edificio Commercial Zhu Kuan Mansion and 39 Macau. Occupancy and rental rates in these properties improved markedly after they were renovated.

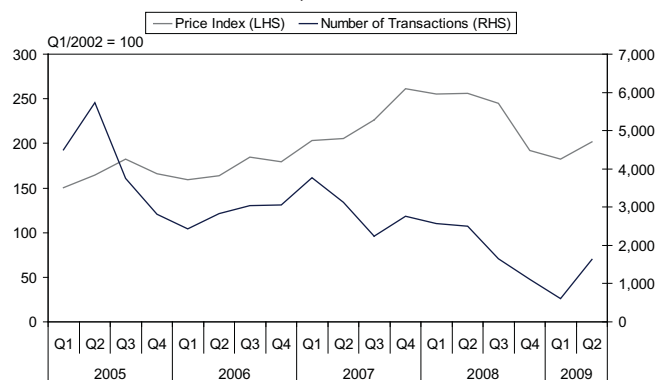
New commercial developments have been focused on hotels and shopping malls over recent years following the casino and tourism boom. Recent new openings include the City of Dreams, an integrated entertainment resort, which features a 420,000-sq.ft. casino, three luxury hotels offering over 1,400 rooms, namely the Crown Towers, Hard Rock Hotel and Grand Hyatt Macau (will be opened in Q3/2009), and a 85,000-sq.ft. shopping arcade, The Boulevard.

Market Outlook

Some positive effects of the government stimulus package on Macao's property market have been noted recently, and both the residential and office markets have bottomed out and are now showing some signs of stabilization or support in terms of sales volume and pricing. More positive initiatives and stimulus plans are expected following the third-term chief executive election, which was held in late July. This should help to strengthen the local economy and to revitalise investment sentiment in the property market.

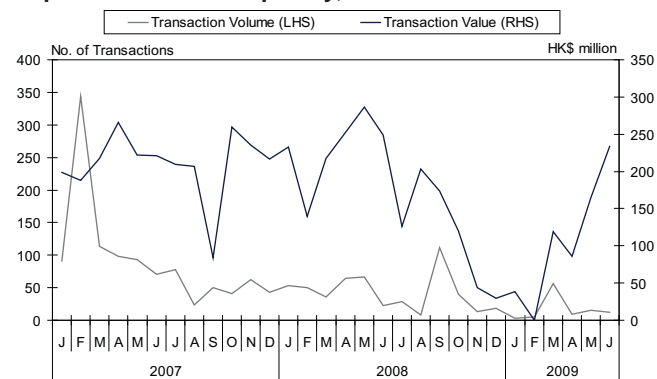
Regional infrastructure development projects will also help to enhance the integration of Macao with the Pearl River Delta region. These include the Hong Kong-Zhuhai-Macao Bridge and the Guangzhou-Zhuhai Intercity Mass Rapid Transit (MRT), with a station at Gongbei, on the border between Macao and Zhuhai. Trains are expected to start running in 2010.

Overall Residential Price Index versus Number of Residential Transactions, Q1/2005 - Q2/2009



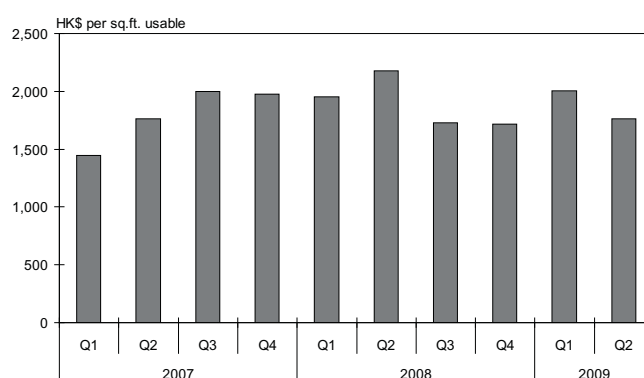
Source: DSEC, Savills Research & Consultancy

Total Consideration and Number of Office Transactions as per record of Stamp Duty, Jan 2007 - June 2009



Source: DSEC, Savills Research & Consultancy

Average Transacted Prices of Offices Properties, Q1/2007 - Q2/2009



Source: DSEC, Savills Research & Consultancy

ASIA PACIFIC HEADQUARTERS

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4400 Fax: (852) 2868 4386

Robert McKellar - CEO, Asia Pacific
Raymond Lee - CEO, Hong Kong and Macau
Randall Hall - CEO, China and Taiwan
Chris Marriott - CEO, South East Asia
Charles Chan - MD, Professional Services, Greater China

HONG KONG SAR

Savills (Hong Kong) Limited

23/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2842 4534 Fax: (852) 2869 6738
Contact: Raymond Lee E-mail: rlee@savills.com.hk
EA Co. Licence: C-002450

Savills Valuation and Professional Services Limited

28/F Two Exchange Square, Central, Hong Kong
Tel: (852) 2801 6100 Fax: (852) 2501 5810
Contact: Charles Chan E-mail: ccchan@savills.com.hk
EA Co. Licence: C-023750

Savills Property Management Holdings Limited

8/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2534 1688 Fax: (852) 2851 1249
Contact: Kendrew Leung E-mail: kleung@savills.com.hk
EA Co. Licence: C-002993

Savills Guardian (Holdings) Limited

7/F Cityplaza One, 1111 King's Road, Taikoo Shing, Hong Kong
Tel: (852) 2512 1838 Fax: (852) 2887 3698
Contact: Peter Ho E-mail: peterho@savillsguardian.com.hk

MACAO SAR

Savills - Macao

Savills (Macao) Limited
Suite 1310, 13/F Macau Landmark, 555 Avenida da Amizade, Macao
Tel: (853) 8506 6288 Fax: (853) 2878 1805
Contact: Franco Liu E-mail: fliu@savills.com.mo

CHINA

Savills - Shanghai

20/F Shanghai Central Plaza, 381 Huaihai Middle Road, Shanghai 200020, China
Tel: (86) 21 6391 6688 Fax: (86) 21 6391 6699
Contact: Albert Lau E-mail: alau@savills-sh.com

Savills - Beijing

2101 East Tower, Twin Towers, B-12 Jianguomenwai Avenue, Chaoyang District
Beijing 100022, China
Tel: (86) 10 5925 2288 Fax: (86) 10 5925 2299
Contact: Billy Chau E-mail: bchau@savills-bj.com

Savills - Guangzhou

Room 906, R & F Centre, No. 10 Hua Xia Road, Zhu Jiang New Town,
Guangzhou, 510623, China
Tel: (86) 3892 7168 Fax: (86) 3892 7030
Contact: Woody Lam E-mail: wlam@savills.com.hk

Savills - Shenzhen

Unit A, 5/F, Anlian Plaza, 4018 Jintian Road, Futian District, Shenzhen 518026, China
Tel: (86) 755 8828 5707 Fax: (86) 755 8828 5676
Contact: Woody Lam E-mail: wlam@savills.com.hk
Offices in Chengdu, Chongqing, Dalian, Hangzhou, Shenyang, Tianjin, Xiamen

ASIA

Savills - Indonesia

PT. Procon Indah
19/F Indonesia Stock Exchange Building, Tower 2, Jl Jenderal Sudirman Kav
52-53, Jakarta 12190 Indonesia
Tel: (62) 21 515 3777 Fax: (62) 21 515 3232
Contact: Hendra Hartono E-mail: hendra.hartono@procon.co.id

Savills - Japan

Savills Japan K.K.
Aoba Roppongi Building 3F, 3-16-33 Roppongi, Minato-ku,
Tokyo 106-0032, Japan
Tel: (81) 3 5562 1700 Fax: (81) 3 5562 1705
Contact: Christian Mancini E-mail: cmancini@savills.co.jp

Savills - Korea

Savills Korea
11/F Seoul Finance Center, 84 Taeyungro-1-ga,
Chung-gu, Seoul, Korea 100-768
Tel: (82) 2 2124 4201 Fax: (82) 2 2124 4188
Contact: Robert McKellar E-mail: rmckellar@savills.co.kr

Savills - Malaysia

Savills Rahim & Co
Level 17, Menara Uni. Asia, 1008 Jalan Sultan Ismail, 50250
Kuala Lumpur, Malaysia
Tel: (60) 3 2691 9922 Fax: (60) 3 2691 0096
Contact: Robert Ang E-mail: robertang@savillsrahim-co.com

Savills - Singapore

Savills (Singapore) Pte Ltd.
2 Shenton Way, #17-01 SGX Centre 1, Singapore 068804
Tel: (65) 6536 5022 Fax: (65) 6538 5540
Contact: Michael Ng E-mail: mng@savills.com.sg

Savills - Taiwan

Savills (Taiwan) Limited
17F-1, Exchange Square, No. 89, Sung Ren Road
Xin-Yi District, Taipei, Taiwan
Tel: (886) 2 8789 5828 Fax: (886) 2 8789 5929
Contact: Cynthia Chu Email: cchu@savills.com.tw

Savills - Thailand

Savills (Thailand) Limited
28/F, 990 Rama IV Road, Bangkok 10500, Thailand
Tel: (66) 2 636 0300 Fax: (66) 2 636 0339
Contact: Robert Collins E-mail: robertc@savills.co.th

Savills - Vietnam

18/F, Fideco Tower, 81-85 Ham Nghi Street,
District 1, Ho Chi Minh City, Vietnam
Tel: (84) 8 3823 9205 Fax: (84) 8 3823 4571
Contact: Brett Ashton E-mail: bashton@savills.com.vn
Office in Hanoi

AUSTRALIA

Savills - Australia

Savills (Aust) Pty Ltd.
Level 7, 50 Bridge Street, Sydney, Australia
Tel: (61) 2 8215 8888 Fax: (61) 2 8215 8899
Contact: Paul McLean E-mail: pmclean@savills.com.au
*Offices in Adelaide, Brisbane, Canberra, Gold Coast, Liverpool,
Melbourne, Parramatta, Perth, Sunshine Coast and Sydney.*

NEW ZEALAND

Savills - New Zealand

Barfoot & Thompson
Level 5, 50 Kitchener Street, Auckland, New Zealand
Tel: (64) 9 307 5523 Fax: (64) 9 3031689
Contact: Peter Thompson E-mail: peter@barfoot.co.nz

MIDDLE EAST

Savills - Dubai

Asteco Property Management LLC (Associate)
P.O. Box 1714, Level 6, Capricorn Tower, Shk. Zayed Road
Dubai, United Arab Emirates
Tel: (971) 4 403 7700 Fax: (971) 4 403 7778
Contact: Andrew Chambers E-mail: andrewc@asteco.com

NORTH AMERICA

Savills - New York

Savills LLC
599 Lexington Avenue, 36th Floor, New York, NY 10022
Tel: (1) 212 328 2800 Fax: (1) 212 328 2828
Contact: John D. Lyons E-mail: jlyons@savills.com

UNITED KINGDOM / EUROPE / SOUTH AFRICA

Savills - Europe

20 Grosvenor Hill, London W1K 3HQ, U.K.
Tel: (44) 207 499 8644 Fax: (44) 207 495 3773
Contact: Jeremy Helsby E-mail: jhelsby@savills.com
*Offices throughout the United Kingdom, Belgium, France, Germany,
Hungary, Italy, Netherlands, Poland, Spain and Sweden. Associate offices
in Austria, Greece, Norway, Portugal, Russia, Turkey and South Africa.*

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