

City on Fire: Macau Real Estate Market

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Despite the government's warning that it could be forced to intervene in the property market to curb excessive speculation, property developers are bullish that prices will continue to rise on soaring demand

Following a decade of decline, property prices made a strong comeback after the outbreak of severe acute respiratory syndrome was brought under control last year.

Things are getting a bit crazy, bringing back memories of the rampant speculation of the early 90s, which was fuelled by hot money inflows from the mainland. In the past 12 months, home prices have surged more than 50%, while the value of shops in prime retail districts have doubled.

The previous boom ended abruptly when the mainland government launched its macro-economic control program and tightened capital outflows. While some rational voices warn of history repeating, most take the continued ascent of property prices as a given.

Chief Executive Edmund Ho publicly called on speculators to restrain themselves, otherwise the government would be forced to intervene in the market. Most take this merely lip service designed to cool the overheating market, and local property developers regard it as a "tactical warning" against foreign speculators. Despite Mr. Ho's plea, however, the market expects a further five to ten percent increase in prices by the end of the year.

Macau's average property price stood at 6,377 patacas per sq m at the end of 2003. While newly completed flats are now selling at 12,421 patacas per sq m. The price of new developments isn't really comparable to that of units built during the boom of the early 90s, however, since the quality of the former is vastly superior, as Sunny Lam, deputy sales director of Midland Realty, points out.

Indeed, the head of a property fund managed by a major US investment bank, who has spearheaded major purchases of Hong Kong residential property and shopping malls and seen prices appreciate dramatically following the eradication of SARS, informs Macau Business that despite the potential for spectacular appreciation in Macau, his fund is not willing to invest in the city until more "quality properties" are built. "The quality just isn't there," he maintains.

The quality shortfall is being addressed, however, and Sunny Lam says the new high-end property projects are of the same standard as four-and five-star hotels, featuring amenities like fitness clubs, luxurious furniture and fittings, household appliances, and high quality building management. "We have seen an increasing number of speculators coming from Hong Kong snapping up apartments at the top-end," said Midland Realty's surveying unit director, Ronald Cheung Yat-fai, in a recent article in the South China Morning Post. He explains that prices for luxury apartments in Macau are between HK\$1,000 and HK\$1,300 per square foot. Even "super-deluxe houses are only about HK\$3,000 per square foot, cheaper than standard units selling in Yuen Long," he point out, referring to one of the cheapest districts for property in Hong Kong. Thus, luxury property in Macau is a steal, as far as Hong Kongers are concerned.

Sunny Lam says high-end properties in Tai Po are now asking for 1,700 patacas per square foot, compared to 1,200 patacas per new mid-range developments. "Of course, if you took back one year ago at the price for new flats which was around 1,000 patacas per square foot,

1,700 patacas per square foot is a big jump of 70 percent. But it is not possible to compare the two because they are of different qualities and for different markets,” suggest Mr Lam.

But this means the price of first hand property is becoming increasingly prohibitive per locals, since despite the spectacular jump in GDP growth, salaries have barely nudged up. A new flat (less than five years old) in the NAPE area can now easily fetch 1,300 patacas per square foot, an increase of 45% year-on-year.

Association of Property Agents and Realty Developers of Macau chairman Ung Chi Kun admits the market may be overheating, but stresses the sharp rise is driven by “very strong demand”. He adds “the speed at which the new property is being digested is amazing.” He cites the main reason for the soaring demand as confidence in Macau’s economic prospects, an expected influx of expatriates coming to work in Macau, and Macau’s land shortage.

With 454,000 residents crammed into just 27.3 sq km, industry sources call on the Macau government to speed up land reclamation to accelerate and manage property development. While the government has unveiled major reclamation plans, most are for infrastructure and tourism projects, such as Fisherman’s Wharf, the Macau East Asian Games Dome, and the cross-border industrial park. Macau’s property developers want more land to be reclaimed for new housing.

Vice president of the Macau Association of Building Contractors and Developers Tommy Lau believes surging prices won’t have much of an adverse impact on ordinary Macau people in the short run because most households have already bought at least one apartment during the decade-long property markets slump.

If property prices get out of hand and the bubble bursts, it could create a domino effect on the rest of the economy.

“The cost of real estate in Macau is so low and therefore very attractive for foreign investors. If you have 100 million patacas, you can easily manipulate the value of property. If you bring just 100 million into Hong Kong, you are not going to affect anything. In Macau, they can play both the demand and supply sides,” explains Mr. Lau.

However, Mr. Lau does not believe Macau’s emerging property bubble is on the verge of bursting either.

“We are concerned about that. There is a risk. In my opinion, however, the risk is not as big as what I have experienced in the early 90s, as Macau’s economy is on the right track to grow and the development of the gaming industry and the influx of tourists from the mainland are sustaining the current growth of the economy,” he says.

Mr. Lau compares property speculation to a game of musical chairs. “When they win on the first round, they want to continue with the second round until they finally lose their seat. It is a matter of psychology,” Tommy Lau concludes. The same psychology, it seems, that keeps people from walking out of Macau’s casinos when they’re ahead, and instead, makes them keep betting until they have nothing left.

Meanwhile, Sunny Lam has some advice for locals who, due to a lack of funds, are forced to stand on the sidelines of the fast-paced property game. “If they look carefully at the second-hand property market, there are still very well located apartments that are affordable for local people. It is a tip. The next big boom will be in the second hand market,” advised Mr. Lam.

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