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THE HVS QUARTERLY MACAU UPDATE

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An HVS Quarterly Macau Update

The past two years have been a difficult period for Macau since the Chinese President Xi Jinping announced a campaign to crackdown corruption and government official's lavish spending, triggering significant slumps in visitor arrivals and revenue growth in the tourism and gaming sectors in Macau. After two years as of 2017, Macau's resilience has been demonstrated through the growing visitor arrivals, hotel performance, and casino revenue, even after the detrimental Typhoon Hato.

Macau

On 23 August 2017, the Category-10 Typhoon Hato struck Macau to become the worst natural disaster the city had encountered in more than half a century. Four days later, another Category-8 typhoon battered the city, leaving extensive damage to the Special Administrative Region. The typhoons took the lives of ten people and deprived 50 per cent of the population of power and water supply for a week. The Four Seasons Hotel had to close its casino and restaurant operations while the Wynn Hotel was left without water and power. The Macau Government Tourism Office (MGTO) requested its tour agent partners to suspend group tours to Macau for a week to allow the city to recover from the aftermath of Typhoon Hato.

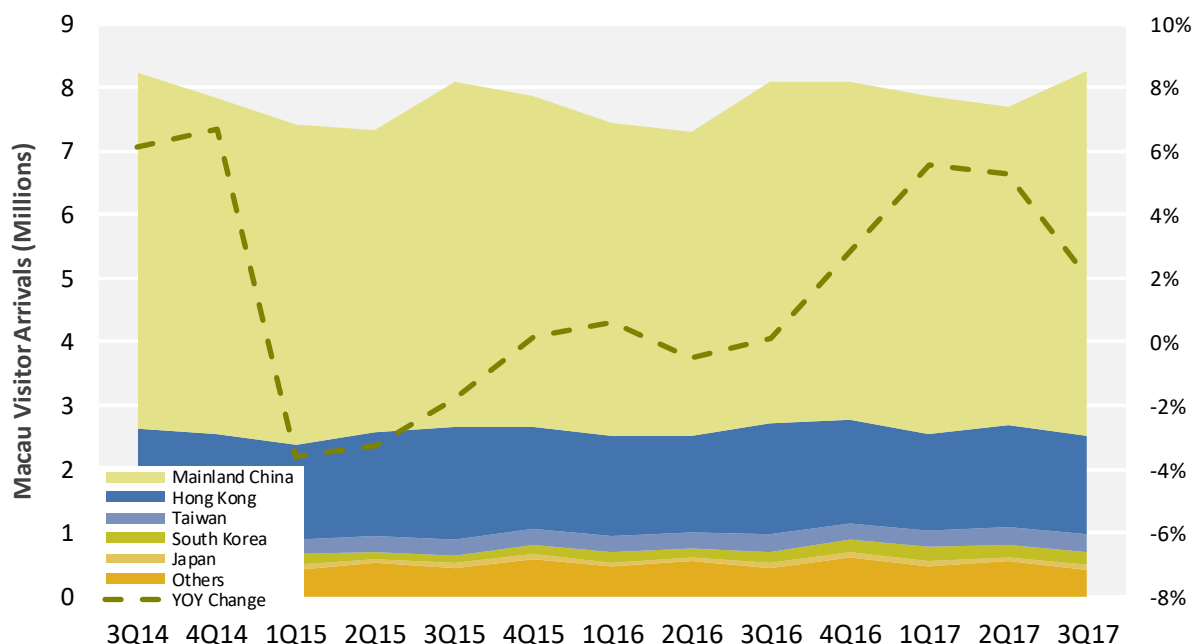
The negative impact from these two typhoons in Macau is evidenced by a 0.6% decline in visitor arrivals in August 2017 compared to the same period in 2016. Additionally, visitor arrivals from July to August posted a 1.8% decline in 2017, in contrast to a 3.1% and 14.5% increase during the same periods in 2016 and 2015, respectively. Despite this misfortune, Macau was still able to capture a 2.4% year-on-year growth in visitor arrivals in the following month of September, at 2.5 million. With the additional increase in hotel room supply, total quarterly visitor arrivals to Macau in the third quarter of 2017 posted a 2.1% year-on-year increase to 8.3 million, compared to 8.1 million in the same quarter of 2016. This emphasises the resilience of the Macau market and quick recovery, surpassing 2016's performance. Collectively, year-to-date through September 2017 registered an additional one million visitors to total 23.8 million, a strong 4.2% year-on-year growth.

During the third quarter of 2017, the top five key source markets remained the same (in order of size): mainland China, Hong Kong, Taiwan, South Korea, and Japan. Supported by China's buoyant economy, mainland China continued to be the largest source market constituting 69.6% of the market or nearly 5.8 million travellers to Macau. This figure reflects solid growth of 6.6% compared to the same period in 2016. The growth in the number of visitors from South Korea was also outstanding, at 27.8% in the third quarter of 2017 compared to the same period in 2016. The 211,000 visitors may be attributed to Macau's adaption of the automated immigration clearance services for Koreans in 2016 and the city's successful promotion initiatives in South Korea, where gambling for locals is restricted to one single, remote casino. As the Japanese government is encouraging its citizens to go abroad, Japan registered a 7.7% year-on-year growth to 82,000 visitors in Macau. The increase is indirectly aided by the rising popularity of the city's an-hour-away neighbour, Hong Kong, among Japanese as well. A 14.4% year-on-year increase in Japanese visitor arrivals to Hong Kong was recorded during the third quarter of 2017. This growth is partially attributed to expanding flight capacity between Japan and Hong Kong, including new flights added by both the legacy carriers and low-cost carriers, such as Hong Kong Express, Jet Star and Vanilla Air from Tokyo and Peach from Osaka.

On the contrary, Hong Kong and Taiwan both faced a decline of visitors to Macau. In particular, Hong Kong arrivals plunged significantly by 11.3% to 1.5 million compared to 1.7 million in the third quarter of 2016. The negative impact from the typhoons was one contributor to the decrease in Hong Kong visitor arrivals together with an aggressive hotel promotion campaign in place the year earlier. To a lesser extent, Taiwan also saw a 2.6% decrease to 282,000 visitations in Macau.

Compared to other regions, Southeast Asian visitors to Macau declined by a sizeable amount during the third quarter of 2017. Displaced by the larger and higher-spending Chinese market, travellers from Southeast Asia adapted their travel preferences to destinations nearer to home. On top of that, substantial marketing promotions such as “Visit ASEAN@50: Golden Celebration” and affordable tour packages are being initiated to celebrate the 50th anniversary of the Association of Southeast Asian Nations (ASEAN). This attracted Southeast Asian travellers to visit the affiliated countries instead. With all of these factors, Macau became an expensive and less sought-after destination in the third quarter of 2017. In particular, Thailand visitors recorded a decrease from the same quarter in 2016 by 23.3% to 35,000, Malaysia by 22.2% to 34,000, Indonesia and Singapore by 13.4% and 13.1% to 44,000 and 25,000, respectively. The visa waiver entry implemented by Taiwan and loosening visa requirements by Japan toward Southeast Asian countries may also have been contributing factors to the declining number of Southeast Asian visitors to Macau, who now have more travelling options.

FIGURE 1: MACAU VISITOR ARRIVALS



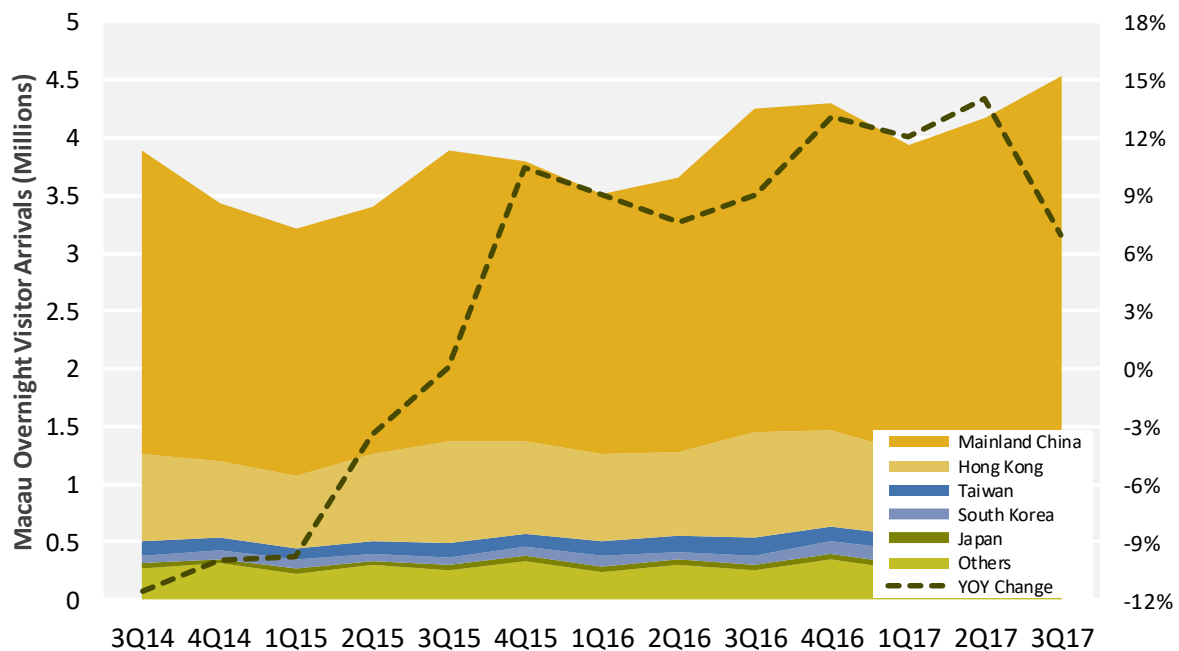
Source: Macau Government Tourism Office

Macau Overnight Visitors

Compared to the 2.1% rise of visitor arrivals to nearly 8.3 million, overnight visitors in Macau experienced robust growth of 6.9% to 4.5 million during the third quarter of 2017. This jump was mainly contributed by the significant growth from two market sources: South Korea and mainland China. Fueled by Macau's successful marketing promotions, South Korea achieved a 57.3% year-on-year growth in overnight stays to 140,000 travellers in the third quarter of 2017, after a strong expansion of 81.0% overnight visitors from the previous quarter. Mainland China also received a positive growth at 15.5%, sending 3.2 million overnight visitors to Macau this quarter. Meanwhile, Japan overnight visitors increased slightly by 1.0%, contributing 46,000 travellers to Macau.

Relative to the 11.3% decline in total visitor arrivals, Hong Kong overnight visitors indicated an even stronger dip by 17.6% to 754,000 travellers in quarter three 2017, a total loss of 161,000 travellers from the same period in 2016. Taiwan also registered a negative 1.3% year-on-year change in visitors staying overnight to 145,000 travellers only.

FIGURE 2: MACAU OVERNIGHT VISITOR ARRIVALS



Source: Macau Government Tourism Office

The third quarter's 2.1% year-on-year visitor arrivals growth rate, despite the storms, further reflects the city's resilience in attracting visitors to the gaming hub. Moving forward, Macau will continue to thrive given the Pearl River Delta Economic Zone development and the improving infrastructure. The long-awaited Hong Kong – Macau – Zhuhai bridge is expected to open at the end of 2017, which will shorten the current travel time from four hours to thirty minutes, enticing more visitations from cities nearby. The Macau Government Tourism Office (MGTO) also plans to attract 40 million visitors by 2025. This is achieved by diversifying the mix in focusing on non-gaming tourism, family holidays, conventions and exhibitions, as well as rebranding Macau as a multi-day destination, which also indicated the city's confidence and hopes in its tourism sector.

Macau Hotel Sector Performance

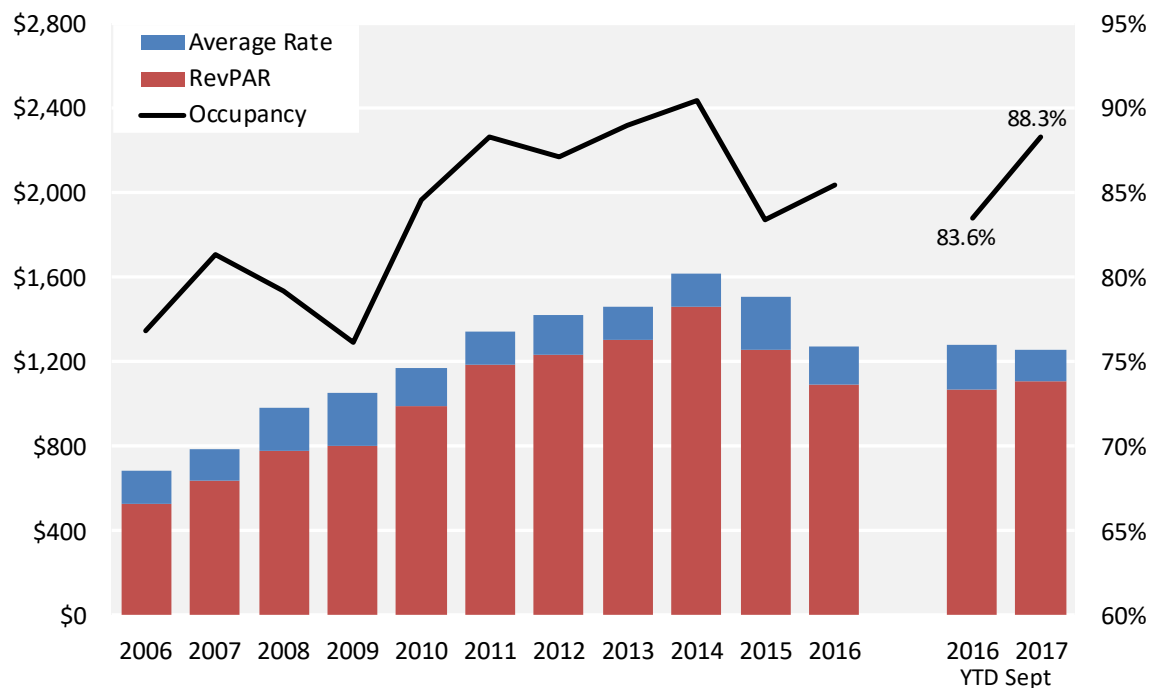
Amid the recovery in the tourism industry, Macau's hotel market received great benefits from the remarkable 10.8% year-on-year growth in overnight visitors during January to September 2017, compared to the same period in 2016. As of September, occupancy in Macau recorded a 4.8 percentage point increase to 88.3%. This growth in occupancy was partially driven by the average rate repositioning, in which it registered a year-on-year 1.7% decline from MOP1,279 to MOP1,257, yet closing at a 3.9% jump on revenue per available room (RevPAR) to MOP1,111.

In quarter three alone, the city's hotel sector recorded a 3.8% growth in RevPar to MOP1,153. The equilibrium between occupancy and ADR can be found among hotels in the city, given that both registered an increase in the third quarter of the year. Occupancy recorded a 1.4 percentage point year-on-year increase to 90.7% while ADR achieved a 2.1% growth to MOP1,272.

The city's ability to quickly recover was illustrated after the typhoon month. Due to the typhoons, some hotels in the city offered promotions in September to capture overnight guests. In September, the average rate received a 4.4% decrease compared to August from MOP1,327 to MOP1,268. However, the decreased average rate from August still posted a slight 0.1% increase from September in the previous year. The

impact of this promotion seemed successful as the occupancy for September reached 90.0%, a two percentage point increase from August in 2017 and a four percentage point increase from September in 2016. The RevPAR for September recorded a 4.6% year-on-year increase to MOP1,141.

FIGURE 3: MACAU HOTEL MARKET PERFORMANCE (2006-2017)



Source: Macau Government Tourism Office

FIGURE 4: MACAU HOTEL MARKET PERFORMANCE (Q32014-Q32017)

	3Q14	4Q14	1Q15	2Q15	3Q15	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Occupancy (%)	90.7	89.8	81.7	82.3	84.6	84.9	78.9	82.3	89.2	91.0	85.3	88.9	90.7
Average Room Rate (MOP)	1,587	1,685	1,783	1,434	1,407	1,403	1,325	1,269	1,245	1,271	1,299	1,201	1,272
RevPAR (MOP)	1,439	1,513	1,456	1,180	1,190	1,191	1,045	1,045	1,111	1,157	1,108	1,068	1,153
RevPAR YOY Change (%)	10.3	5.6	-1.9	-15.9	-17.3	-21.3	-28.2	-11.5	-6.6	-2.9	6.0	2.3	3.8

Source: Macau Government Tourism Office

Macau Gaming Sector Performance

Despite the fact that VIPs are still the casino industry's bread and butter, income from the mass market is increasing as well. As China restricts VIP junket operators to bring wealthy mainlanders to Macau, the only place in China where casino gambling is legal, casinos are aiming to become less dependent on VIPs. To protect the longevity of the gaming industry, new resorts such as the Parisian, Wynn Palace, and Studio City have been created to lure the mass market to Macau, which requires a far larger number in visitor arrivals. The city is seeing a return, as it attracted a 4.2% increase in visitor arrivals during the first nine months of 2017.

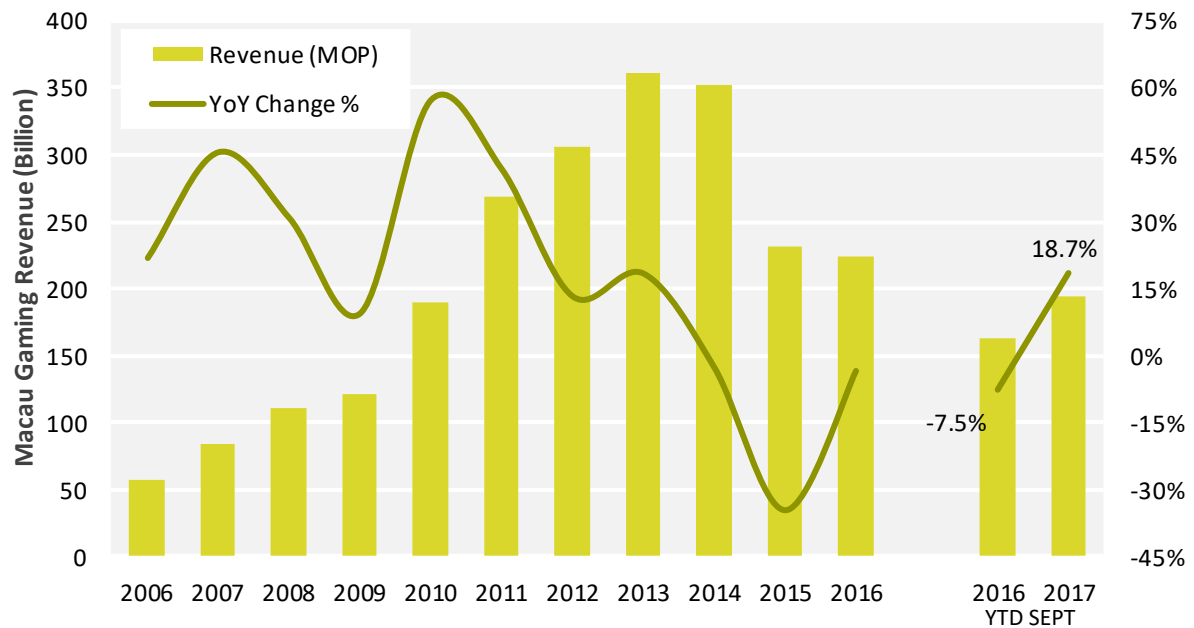
From January to September 2017, total gaming revenue registered a 18.7% year-on-year increase to MOP194 billion, compared to MOP163 billion in 2016. This is believed to have been aided by the average number of slot machines which rose by 10.9% in the first three quarters to 16,177 and the average number of gaming tables which rose by 4.9% to 6,428 in 2017. Compared to 2016, casino average winning in the first three quarters registered a moderate 13.5% year-on-year increase to MOP104,756 per gaming table per day and a slight 3.3% increase to MOP2,160 per slot machine per day.

Despite the damage the typhoons caused in the city, its casino sector remained to show a year-on-year revenue jump of 21.8% to MOP67.2 billion in the third quarter. A healthy sign of casinos recovery is shown with the positive growth of the largest two revenue-driving games, VIP Baccarat and Standard Baccarat. In the third quarter of 2017, VIP Baccarat had a significant 35.0% year-on-year increase to MOP38.7 billion; while Standard Baccarat witnessed a 7.3% increase to MOP20.8 billion. This is mainly driven by the return of the mainland Chinese market, displacing lower gambling-spending markets.

Additionally, Macau welcomed Casino Royal Dragon in September, where the casino relocated twenty gaming tables from others casinos under the licence of SJM Holdings. In quarter three, the number of gaming tables in Macau posted a 2.3% year-on-year increase to 6,449 and slot machines a 3.4% year-on-year increase to 16,310 as supply from Wynn Palace phased in. Average casino winning registered an impressive 19.5% year-on-year jump to MOP107,497 per gaming table per day and a 9.6% increase to MOP2,147 per slot machine per day.

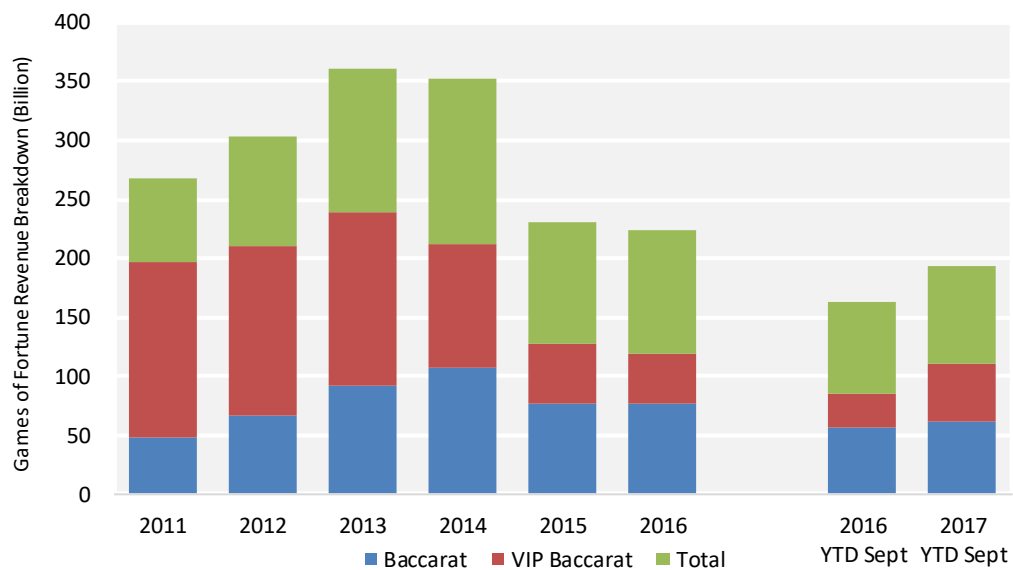
In the first three quarters of 2017, VIP Baccarat and Standard Baccarat play make up 88.4% of the total games of fortune revenue, with the VIP portion alone making up 56.9% of the total revenue, compared to 52.6% in the same period in 2016. As the number of mainland Chinese visitors is restoring steadily, the same force of high-roller takes that disappeared in 2014 and 2015 is gradually returning to the gaming tables in Macau this year.

FIGURE 5: MACAU GAMING REVENUE



Source: Gaming Inspection and Coordination Bureau Macau SAR

FIGURE 6: MACAU GAMES OF FORTUNE REVENUE BREAKDOWN



Source: Gaming Inspection and Coordination Bureau Macau SAR



About HVS

HVS, the world's leading consulting and services organization focused on the hotel, mixed-use, shared ownership, gaming, and leisure industries, celebrated its 35th anniversary last year. Established in 1980, the company performs 4,500+ assignments each year for hotel and real estate owners, operators, and developers worldwide. HVS principals are regarded as the leading experts in their respective regions of the globe. Through a network of more than 35 offices and more than 500 professionals, HVS provides an unparalleled range of complementary services for the hospitality industry.

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Everywhere.**

HVS ASIA PACIFIC is represented by seven offices in Hong Kong, Bangkok, Beijing, Shanghai, Shenzhen, New Delhi and Singapore. HVS also hosts four of the main annual industry events in the region, namely the China Hotel Investment Conference (CHIC) in Shanghai, Hotel Investment Conference South Asia (HICSA) in India and Tourism, Hotel Investment & Networking Conference (THINC) Indonesia in Bali, and THINC Sri Lanka in Colombo.

The Hong Kong team has worked on a broad array of projects that include economic studies, hotel valuations, operator search and management contract negotiation, development strategies for new brands, asset management, research reports and investment advisory for hotels, resorts, serviced residences and branded residential development projects. HVS Hong Kong's clients include New World Development, The Wharf, Sun Hung Kai, Samsung, SK, Lotte, Taj Hotels and Resorts, Agile Property Holdings, Citibank and LaSalle Investment Management, amongst others.

About the Authors



Christy Tung joined HVS Hong Kong as an Analyst in August 2017. As her primary duties, Christy conducts market research and data analysis in Market Studies and Feasibility Studies in the Asia Pacific

region. Prior to joining, Christy has gained a wide array of hospitality experiences in hotel operations, revenue management, and sales and marketing from multiple international hotels, including Hilton Boston Back Bay, the Langham Sydney, and the Langham Boston.



Daniel J Voellm, Managing Partner HVS Asia-Pacific, is based in Hong Kong and has provided advice in all major markets across 18 countries in the region.

Daniel works closely with key institutional and private owners of hotel properties, financiers, developers and investors, and has gained a strong understanding of their investment requirements and approaches to assessing the market value of investment properties. Daniel further advises on property and concept development and strategy.