



A 3-bedroom unit at *The Fountainside* was sold for US\$1.3 million.

### QUICK FACTS

Inception Date	5 June 2006
Exchange	London Stock Exchange
Domicile	Guernsey
Market Capitalisation	£120.0 million
Share Price	157.0p
Number of Principal Properties	4
Total GFA	306,920 sq ft <sup>1</sup>
Portfolio Valuation	US\$412.5 million <sup>2</sup>
Adjusted NAV per share	US\$3.10/247p <sup>2,3</sup>
Discount to Adjusted NAV	36.4%
Cash Balance	US\$22.0 million <sup>2</sup>
Total Debt	US\$178.0 million <sup>4</sup>
Loan-to-Value Ratio	41% <sup>4</sup>

<sup>1</sup> Including the 28 sold units at *The Fountainside*.

<sup>2</sup> As at 31 March 2017.

<sup>3</sup> Based on a US\$/£ exchange rate of 1.255 as at 31 March 2017.

<sup>4</sup> Assuming a full drawdown of MPO's committed loan facilities and based on MPO's portfolio value as at 31 March 2017.

All other data are as at 30 June 2017.

*A three-bedroom apartment at The Fountainside was sold in June. Macau's gross gaming revenue registered 11 consecutive months of year-on-year growth, heralding the return of high-rollers. New housing loan restrictions were introduced.*

#### **Occupancy at *The Waterside* rose to 62%.**

An ongoing recovery in the gaming industry continued to boost demand.

#### **A unit at *The Fountainside* was divested.**

The 1,620-square-foot apartment was sold for US\$1.3 million, or US\$810 per square foot.

#### **Opportunistic divestment planned for *Estrada da Penha*.**

An international real estate agency specialising in luxury properties has been appointed to execute the sale.

#### **Gross domestic product continued to trend upwards.**

The Economist Intelligence Unit expects Macau's economy to grow 7.8% in 2017, following two years of declines.

#### **New housing policy.**

Loan-to-value ceilings have been lowered by a further 10-20%.



## FUND

The improving Chinese economy and property market have continued to lift sentiment in Macau. The Company's Adjusted NAV rose 2.6% quarter-on-quarter (QoQ) to reach US\$237.3 million as at 31 March 2017, equating to US\$3.10 (247 pence) per share. MPO's

portfolio was valued at US\$412.5 million, an increase of 3.0% QoQ.

As at 31 March 2017, MPO's cash position stood at US\$22.0 million, of which US\$3.3 million was pledged as collateral for debt facilities. The

Company's total borrowing was US\$178.0 million, translating to a loan-to-value (LTV) ratio of 41.0%.

The Company's annual financial results are due to be released in late September.

## PORTFOLIO

### THE WATERSIDE

Leasing activity at *The Waterside* continued to improve during the quarter. As at the end of June, *The Waterside's* occupancy level had reached 62%, an increase of 3.0% from the previous quarter. This comes against the backdrop of a recovering gaming industry, driven by VIP segment gains, alongside improved property market sentiment.

Macau's residential leasing market is generally seeing improved asking rents in the high-end segment amid a relatively sanguine property outlook. The average rental at *The Waterside* is now HK\$17.69 (US\$2.27) per square foot per month, an increase of 1.5% from the previous quarter.

We continue to enhance our marketing efforts to further boost occupancy, including the utilisation of social media platforms to improve visibility and expand our reach.

The resurgence of the VIP segment in the gaming industry is expected to drive leasing demand for high-end residential properties, especially among junket operators. This bodes well for *The Waterside*, given its premier status, quality lifestyle offerings and ease of access to established casinos in the city.

### THE FOUNTAINSIDE

Following the introduction of flexible sales packages at the beginning of the year, the sales team successfully sold a 3-bedroom, 1,620-square-foot apartment for US\$1.3 million in June – the first sale in almost 3 years. The transacted price equates to US\$810 per square foot.

We are maintaining a proactive approach in our marketing, with regular placements of advertisements and mailers sent out to foster awareness and generate interest. Against a backdrop of limited new developments in the Penha Hill district, *The Fountainside* is compellingly positioned and remains an attractive property for local homebuyers.

The recent reduction in mortgage ceilings by the government has resulted in a slight decline in enquiries. The loan cap for properties valued at more than US\$1 million has been reduced to 30% from 40% for non-Macau residents, while Macau residents buying second and subsequent properties are permitted to borrow up to 40%, as opposed to 50% previously.

### ESTRADA DA PENHA

Sales activity in the ultra-luxury segment remains muted amid regulatory restrictions such as China's capital outflow controls

and Macau's imposition of LTV limits, prompting potential buyers to take a cautious approach to investment. However, nearby Hong Kong continues to see strong demand for luxury properties, with prices significantly higher than those in Macau. We believe it is only a matter of time before wealthy investors on the lookout for unique and exclusive properties recognise the value that Macau offers, especially after the much-anticipated Hong Kong-Zhuhai-Macau bridge opens in 2018.

We continue to work on divestment opportunities for *Estrada da Penha* and have recently appointed an international agency renowned for marketing ultra-luxury properties to act on behalf of the Company.

### SENADO SQUARE

Macau's retail market is already showing signs of improvement, and is expected to be supported by growing numbers of tourists, a recovering economy and new infrastructure developments. We believe these factors will help to position our prime retail asset optimally and attract investors looking for long-term opportunities. We will consider a disposal of this property if we receive an attractive offer.



Breathtaking view from *Estrada da Penha*.

# MACAU

## Steady Economic Growth Expected in 2017

Macau's annualised gross domestic product (GDP) continued to recover in the first quarter of 2017. According to the Statistics and Census Service, GDP grew 10.3% year-on-year (YoY), but saw a decline of 5.0% from Q4 2016. The Economist Intelligence Unit expects Macau's economy to grow at an average rate of 7.8% in 2017 and 2018.

Gross gaming revenue (GGR), the key driver of the city's economy, was US\$7.9 billion in Q2 2017, a slight dip of 0.9% QoQ, but an increase of 21.9% YoY. Taking into consideration all relevant economic indicators, Fitch and Nomura forecast a 12% and 15% GGR growth, respectively, in 2017.

## Guangdong-Hong Kong-Macau Bay Area: a Boost to the Economy

China's central government has made a commitment to support Macau in its efforts to increase its economic vitality as a tourism hub. A committee has been set up to develop a comprehensive development plan for the Guangdong-Hong Kong-Macau bay area by the end of 2017. The plan, a revision of regional development initiatives such as the Pan-Pearl River Delta, aims to increase connectivity, trade and investment between the three regions to boost economic growth.

We believe these initiatives will enhance Macau's competitive advantage, complement its ties to Guangdong province, stimulate economic growth, and pave the way for the city to become a

point of connectivity between China and Portuguese-speaking countries.

## Tourism and Infrastructure

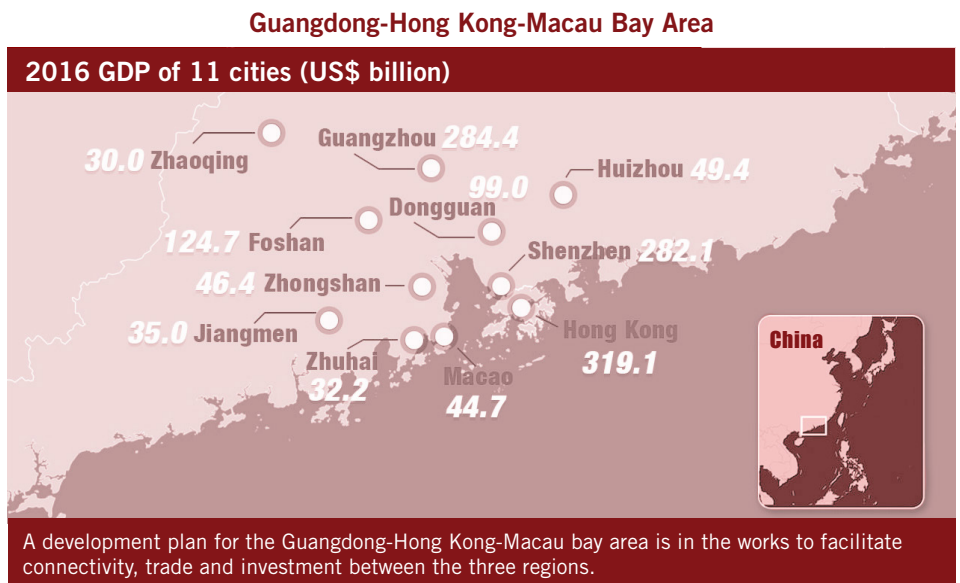
Visitor arrivals continue to grow with the month of May registering a total of 2.6 million visitors, an increase of 3.7% YoY. The number of visitors from mainland China rose 4.4% YoY to 1.7 million. Tourist arrivals under the Individual Visit Scheme increased by 9.9% YoY and the number of overnight visitors grew 14.2% YoY to 1.4 million, while the average length of stay remained 1.3 days. The Macao Government Tourist Office expects that tourist arrivals will grow 5.0% to 32.5 million in 2017.

The new Taipa maritime terminal commenced operations in June. The 200,000-square-metre terminal – four times the size of the temporary Taipa

ferry terminal – provides visitors direct connection to the planned light rail transit system, better facilitating travel within Macau and with neighbouring cities.

Meanwhile, construction work on the Gongbei tunnel, the only link connecting Zhuhai with the Hong Kong-Zhuhai-Macau bridge, was completed in April. Construction of the bridge is expected to be completed by the end of the year with the opening to follow in 2018.

The Shenzhen-Zhongshan tunnel, another key infrastructure project in the Greater Pearl River Delta, is under construction. Upon its completion in 2020, the average travelling time between Shenzhen and Zhongshan will be reduced from two hours to less than 30 minutes, further enhancing connectivity among the cities in the delta region.



# PROPERTY

## Residential Property Market Continues to Gain Momentum

Macau's residential property market has continued to gain momentum, supported by new project launches and robust demand among local residents. According to the Financial Services Bureau, the number of residential transactions increased 55% YoY to 1,610 in May, the highest since 2013. The average transaction price was MOP10,634 (US\$1,330) per square foot.

Supply of mid- to high-end projects remains constrained with most developments that are nearing completion already pre-sold. The Macao Association of Building Contractors and Developers predicts that new private housing supply will reach 13,000 units between 2017 and 2020. This translates to just over 3,000 units annually, representing a 1.5% increase in total housing stock

from 2016, which falls short of Macau's estimated household formation of over 5,000 per annum.

As sentiment continues to improve, we believe that the recent increase in housing demand among local residents will be sustained. Macau's market fundamentals remain healthy, with high and stable median income, rising residents' deposits, low unemployment, a growing population and attractive levels of residential affordability.

## New Government Policy on Mortgage Loans

The government imposed LTV restrictions on housing purchases in May, including pre-sales. LTV ceilings for Macau residents have been lowered by up to 20.0% for second and subsequent property purchases, while the LTV cap for non-residents has been lowered by

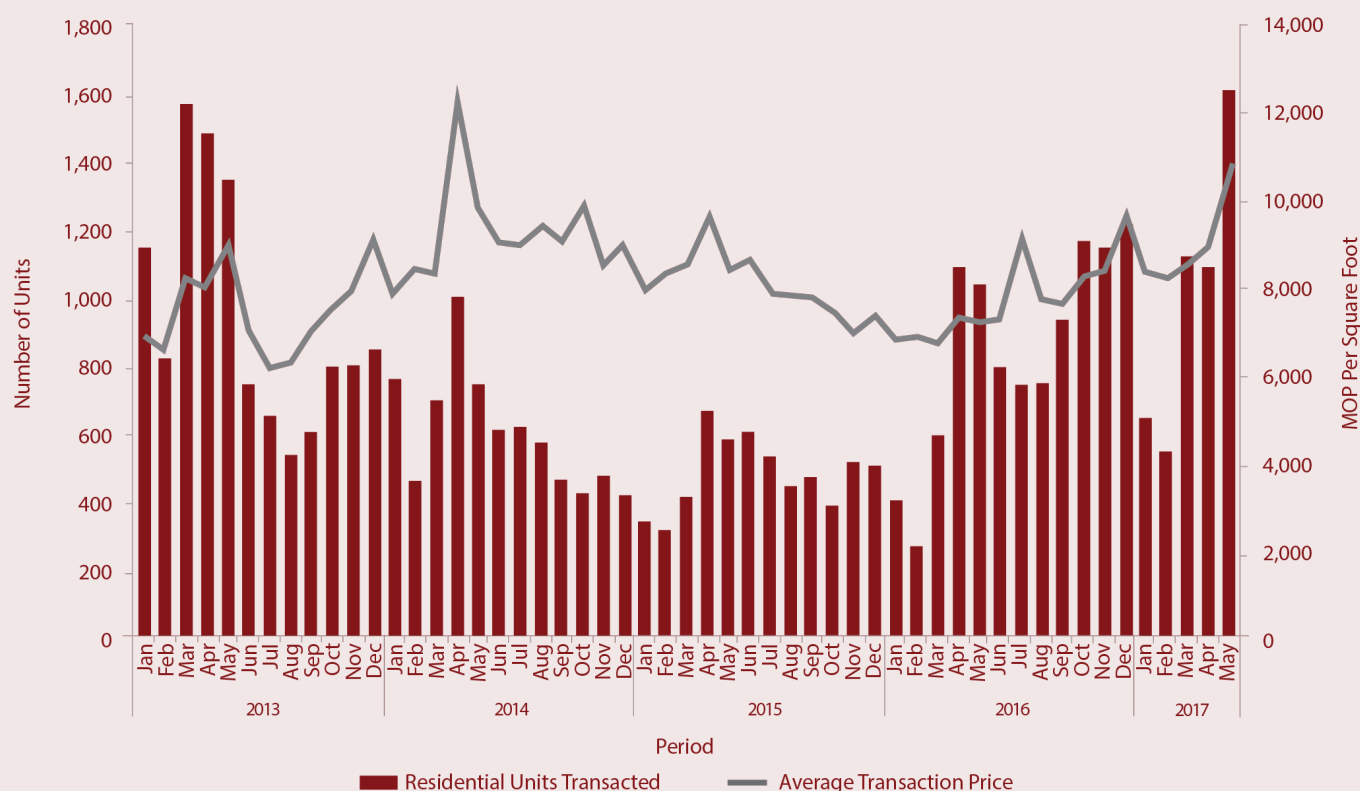
10.0% for first and subsequent property purchases.

According to the Monetary Authority of Macao, the new policy is designed to curb excessive investment, promote stable development in the housing market, and aid risk management among banks. In our opinion, the restrictions may have a slight impact on market sentiment, especially for property owners who already own an existing residential dwelling. The policy will have no significant impact on first-time local homebuyers, as the mortgage loan cap remains unchanged for this group and upgraders holding reserves.

## Federal Reserve Interest Rate Hikes

Despite having raised the base rate by 0.25 percentage points in June by the Monetary Authority of Macao, banks are currently maintaining their mortgage rates. We expect interest rates to remain

## Residential Property Transaction and Price



Source: Financial Services Bureau

low in the short term, given that the city has been running on abundant liquidity. However, if the United States Federal Reserve continues to increase interest rates, we believe banks will eventually follow suit and mortgage rates will increase, albeit at a gradual pace.

Although the Federal Reserve has been signalling interest rate increases since the beginning of the year, Macau has taken pre-emptive action, such as the implementation of LTV restrictions to curb potential risks. We therefore do not expect the latest interest rates rise to have a major impact on the city's property market in the short- to mid-term. Notwithstanding that higher borrowing rates will add pressure on mortgage borrowers and the business

sector, a normalisation of rates could benefit the overall economy of Macau.

### Outlook

We maintain a cautiously optimistic outlook on Macau's property market. Uncertainties exist, including the possibility of another round of Federal Reserve interest rate increases, China's attempts to restrain capital outflows, and reactions to global political changes. The imposition of new LTV ceilings and mortgage loan caps may also prompt investors to adopt a more conservative approach to property purchases.

Ultimately, we believe that Macau's residential property market will remain

supported by healthy economic fundamentals, and that demand from domestic buyers will help to sustain and absorb the limited supply of new housing stock at a steady pace.

## FURTHER INFORMATION

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### Stock Code

London Stock Exchange: MPO

### About The Company

Macau Property Opportunities Fund Limited is a closed-end investment company registered in Guernsey and is the only quoted property fund dedicated to investing in Macau, the world's largest gaming market and the only city in China where gaming is legalised.

Premium listed on the London Stock Exchange, it is also a constituent stock of the FTSE All-Share and FTSE SmallCap indices.

Launched in 2006, the Company targets strategic property investment and development opportunities in Macau. Its current portfolio comprises a mix of prime residential and retail property assets that are valued at US\$412.5 million as at 31 March 2017.

### About Sniper Capital Limited

The Company is managed by Sniper Capital Limited, an Asia-based property investment manager with an established track record in fund management and investment advisory.

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