

6.8 Business Services

OVERVIEW

The business services sector contracted by 1.9 per cent in the fourth quarter of 2016, similar to the 1.8 per cent contraction registered in the previous quarter.

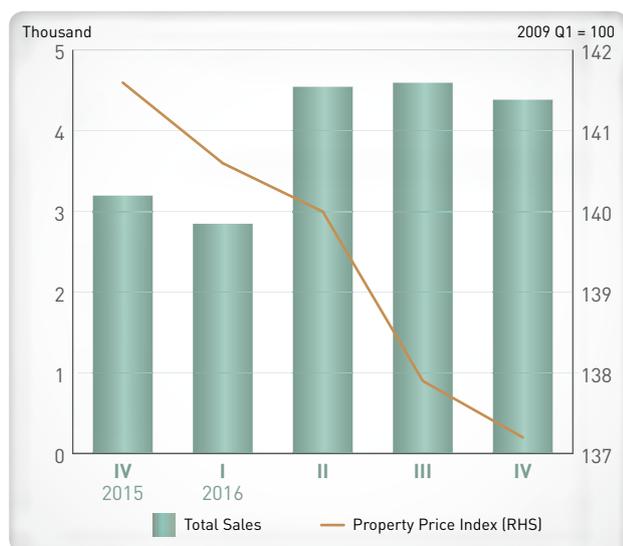
For the whole of 2016, the sector shrank by 0.9 per cent, reversing the 3.9 per cent growth in 2015.

REAL ESTATE

In 2016, the growth of the business services sector was dampened by the slowdown in the real estate market. Notably, the real estate segment shrank by 4.2 per cent, a reversal from the 2.2 per cent growth seen in the previous year.

Against the backdrop of a sluggish real estate market following the implementation of property cooling measures such as the Total Debt Servicing Ratio and Additional Buyer's Stamp Duty, prices in the private residential property market registered its thirteen consecutive quarter of decline in the fourth quarter. On a quarter-on-quarter basis, prices fell by 0.5 per cent during the quarter, extending the 1.5 per cent decline seen in the previous quarter. For the whole of 2016, prices fell by 3.1 per cent, following the decline of 3.7 per cent recorded in 2015.

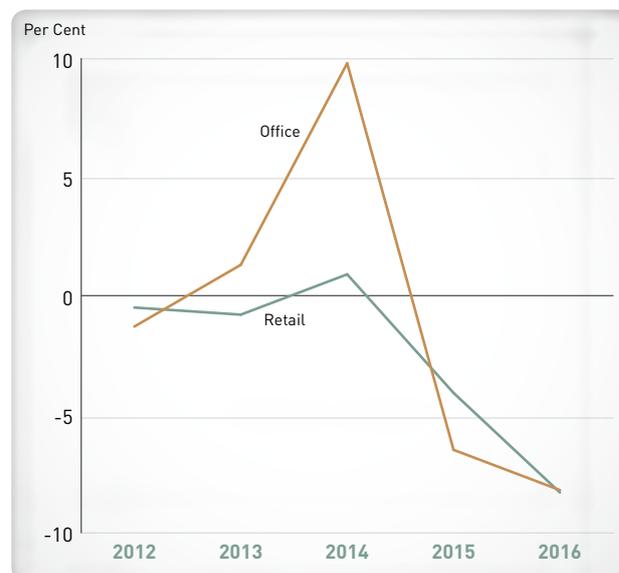
Exhibit 6.29: Total Sales of Private Residential Units and Private Residential Property Price Index



In comparison, sales volumes have started to stabilise as the private residential property market adjusts to lower prices. Total private residential property sales surged by 37 per cent year-on-year in the fourth quarter of 2016, extending the 11 per cent growth in the previous quarter, in part due to the higher transactions of newly launched units. For the full year, total sales picked up by 16 per cent to reach 16,378 units, compared to the 14,117 units sold in 2015 (Exhibit 6.29). However, the uptick was modest compared to the average of 28,997 units sold between 2010 and 2014.

In the commercial space segment, the retail and office space markets faced increased headwinds in 2016 given falling prices and rentals. In particular, the prices of private retail space declined by 5.4 per cent in 2016, accelerating from the 0.8 per cent contraction recorded in the previous year. Likewise, office space prices weakened by 2.8 per cent, moderating further from the 0.1 per cent contraction in 2015.

Exhibit 6.30: Changes in Rentals of Private Sector Office and Retail Spaces



For the rental market, private retail space rentals declined by 8.3 per cent in 2016, sliding further from the 4.1 per cent decline in the previous year. The deterioration was driven by lower rentals in the Central Area (-8.8 per cent) as well as the Fringe Area (-6.6 per cent). Similarly, rentals in the office market saw a contraction of 8.2 per cent, extending the 6.5 per cent decline seen in 2015 (Exhibit 6.30).

In the industrial space market, overall prices weakened by 9.1 per cent in 2016, following the 1.7 per cent fall in 2015. Overall rentals also declined by 6.8 per cent, a steeper pullback compared to the 2.1 per cent decline in 2015. Notably, rentals of private multiple-user factory space fell by 7.7 per cent in 2016, worsening from the 3.3 per cent decline in the previous year (Exhibit 6.31).

PROFESSIONAL SERVICES

The professional services segment grew marginally in 2016, weighed down primarily by weakness in the business & management consultancy sub-segment (-10 per cent). However, the segment was supported by the legal (4.9 per cent) and architectural & engineering services (2.3 per cent) sub-segments.

Exhibit 6.31: Occupancy Rate and Rental Growth of Industrial Space

