CHIEF ECONOMIST'S COMMENT

27 October 2017

Thinking big for Frankfurt: BIG FFM

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The Brexit negotiations are progressing at a very sluggish pace. It has been more than half a year since Article 50 was triggered and the British government still does not seem to have a plan. Within the United Kingdom itself, support for this audacious project is waning, a fact that even the Prime Minister Theresa May appears to grasp. In her recent Florence speech, she called for a two-year transition period after the planned withdrawal date of March 2019. Meanwhile, it is no longer possible to completely rule out the prospect of an "exit from Brexit"; in our opinion, though, this scenario is extremely unlikely. Thus, at the end of the day, London's financial institutions will not be able to rely on the status quo remaining the way it is.

All the banks that currently conduct their European business from London by means of the EU passport will have to look for a new location. In order to receive the appropriate licence in another member state, they will have to factor in a period of around half a year. Depending on their existing presence in an EU country, however, they will first have to apply for a banking licence and have it approved by the respective supervisory authority – a process that can take anything up to a year in Germany. Within this time frame, lasting as long as one and a half years, companies will have to manage the establishment of new offices with qualified personnel. In other words: the clock is ticking.

Thus far, a total of 15 banks have declared Frankfurt to be their preferred location. Accordingly, jobs will be relocated from the river Thames to the river Main. In order to facilitate a comparison between the two cities, we have created a new regional employment aggregate: BIG FFM. We created this by transposing the area of Greater London onto the Frankfurt region and then, using data on district level, calculating financial sector employment. In this way, regional financial sector employment stretches from Bad Homburg to Darmstadt and from Wiesbaden/Mainz to Hanau. According to this, around 118,000 people were employed in the sector of financial and insurance services within BIG FFM, compared to approximately 360,000 in Greater London.

Based on our calculations, we expect at least 8,000 Brexit bankers to relocate to Frankfurt over the next few years. In contrast to an abundant supply of office space, currently there are hardly any vacant properties on Frankfurt's housing market. This means that demand, which is already rising, will be driven up even further by "Brexit émigrés". For this reason, in terms of providing living space of varying quality, the focus should not solely be on the city itself but on its surrounding area, too. The average number of completed dwellings in relation to population size over the last three years demonstrates that, within the financial centre region, Frankfurt has recently made by far the largest contribution to improving the supply of living space. While Frankfurt had recently managed around 6 completed dwellings per 1,000 residents, the comparable figure in most neighbouring districts was only 2 to 3 (with the positive exception of the nearby city of Offenbach that boasts a figure of 4). The available land exceeds the possibilities that Frankfurt offers with its strictly limited boundaries by a large margin. However, if construction is intensified in outlying areas, it will be vital to expand the (transport) infrastructure in order to ensure that commuting times remain bearable. ■