

FINANCIAL CENTRE OF FRANKFURT
IN POLE POSITION
FOR BREXIT BANKERS

Helaba Research





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Editorial

Dear Readers,

It has now been as long as 14 months since the British voted in a referendum in favour of leaving the EU. What has happened since then? Almost immediately, the expression “Brexit” established itself as a semantic variation of “Grexit”, which had been almost completely forgotten. What remains unclear, though, is whether the British will really leave in March 2019 at all, since the UK government is pressing for a transition phase. Some in the United Kingdom seem to have realised that leaving the EU was perhaps not such a good idea after all and that the costs of withdrawal could be considerably higher than the apparent benefits.

The remaining 27 EU members states have formed a surprisingly united front and this is putting them in a strong position. In view of the issues that need to be overcome and the rather sluggish way negotiations are proceeding, the Brexit clock is ticking very loudly. At the same time, the qualifying rounds for market participants are well underway, with the pound sterling coming under pressure since the referendum. The UK real estate market is showing signs of weakness and, along the river Thames, the days of permanently being in the fast lane are over.

A lot of hectic activity can be seen in the banks. This is because, should banks currently doing business from London lose the so-called EU passport, they would be forced to find a new location among the 27 EU countries for their European activities. The race between European financial centres is therefore now on to win over the Brexit bankers.

In our view, Frankfurt is in pole position in the contest of places to be for the financial sector. As we have clearly demonstrated in a number of studies already, Frankfurt am Main is the leading financial centre in Continental Europe. In this respect, it is no surprise that numerous institutions have already announced that they will relocate their activities to the city. Other financial centres are also in with good chances, of course; but on the basis of statements that the banks have already made, Frankfurt is ahead.

It is still only possible to make a rough estimate as to how many banks will come and how many people they will bring with them at the end of the day as a result of Brexit. In view of the excellent starting point, however, Frankfurt has a good chance of picking up at least half of the financial sector jobs that will migrate from the Thames. Based on conservative assumptions, this would

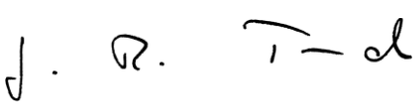
equate to a minimum of 8,000 employees over a period of many years. It should begin to make itself felt as early as next year.

The newcomers from London, who are currently working for global banks and are not all native Britons, will experience Frankfurt as a very international city. These days, the German financial centre is home to people from 177 nations and the influx of new residents has risen enormously over the past couple of years. Its international flair, while maintaining a down-to-earth character, as well as easy accessibility from places both near and far has made it extremely popular. Since 2013, the population of Frankfurt has grown by an average of 15,000 people every year.

However, a fact that cannot be denied is that an increasing population also poses a challenge for a city and one that will have to be constantly worked on. Just like in motorsport, in which success is not simply a result of one person, a big team effort involving all regional players will be required. This particularly applies to issues relating to the housing market and intellectual infrastructure, which are typical features of all growing cities. As a metropolis with a strong civic tradition and companies that are actively involved in its development, though, it should be possible to ensure sufficient material, land and human resources with the support of the entire Rhine-Main area.

Therefore, with adequate preparation, the chances that Frankfurt will be the first financial centre to cross the chequered flag on the finishing line are high.

Yours



Dr. Gertrud R. Traud
Chief Economist/Head of Research

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Financial Centre of Frankfurt: In Pole Position for Brexit Bankers

In the competition to attract Brexit bankers, the German financial centre is in pole position. The announcements of many London-based banks make this evident. While only a small number had made their relocations plans public at first, since the Brexit negotiations kicked off in June 2017 many players have taken a more aggressive stance in respect of shifting business activities to alternative locations. In this context, Frankfurt has been successful in taking a clear lead in the competition among European financial centres. This is because, meanwhile, **numerous banks** have made explicit statements of intent to relocate jobs **from the river Thames to the river Main**. In contrast, hardly any firm decisions in favour of other financial centres have yet been officially announced. Furthermore, a large number of other institutions have expressed a preference for the German financial centre, or at least for shifting a part of their business there. In this sense, there is now a noticeable accumulation of pro-Frankfurt financial centre players.

The role of the German financial centre as the favourite in the Brexit-related restructuring process is no coincidence: Frankfurt is the leading financial centre in Continental Europe, as we determined in our detailed 10th anniversary edition of the Helaba financial centre study in the summer of 2016. Our indicator-based comparative locational analysis led to the following clear order of importance in Europe: **London before Frankfurt before Paris**. The German financial centre with its many assets enjoys strong appeal for both domestic and international players. In terms of relocating jobs from the river Thames to the river Main, the following **locational qualities** that Frankfurt possesses are particularly significant: the stability and strength of the German economy, the headquarters of the ECB in its dual function, the role of the city as a transport hub with good infrastructure, relatively affordable office rents as well as a high standard of living that also offers a varied range of recreational activities in the city and its green environs.

The attractiveness and **international character** of Frankfurt should be permanently shifted into the right perspective by means of a concerted and confident marketing drive, which is already underway with a variety of activities. After all, the prejudices that arise again and again – of Frankfurt being a provincial city in which English does not get you very far – are thoroughly outdated. The German financial centre, which has the reputation of being rather sedate and cleverly combines its traditional origins with a modern way of life, simply has a different character to the trendy City of London. In terms of its cosmopolitan atmosphere, in particular, Frankfurt has made **noticeable strides** and has a lot to offer to Germans and foreigners alike.

Since we created our financial centre ranking in 2016, Frankfurt's **relative attractiveness** has **risen** even further. In contrast, the damage to London's image can no longer be ignored, even if the City is likely to maintain its outstanding position in the financial world. The continuing high level of uncertainty over future arrangements in the United Kingdom, however, mean that it is losing favour among foreign financial centre participants. On top of that, the collapse of the attempted merger between Deutsche Börse and the London Stock Exchange can be seen in a positive light for Frankfurt, especially in relation to the British financial centre. Instead of being "incorporated" by London, as had been feared, Frankfurt's strong stock exchange can now go its own way with its head held high. Furthermore, the German financial centre could become even stronger as the European centre for supervision if the EU-wide banking supervisory authority EBA is relocated here. Taken together, this all means that the chances of Frankfurt being the **principal beneficiary of Brexit** are rising and that it will thus be able to position itself even better in the global financial system.

A **novelty** of Helaba's long-running financial centre research is our own **regional employment aggregate** – financial sector employment within BIG FFM. We created this by transposing the area of Greater London onto the area around Frankfurt. At the end of last year, around 118,000 people were employed in the sector of financial and insurance services, which compares to approximately 360,000 in Greater London. However, employment density, that is to say in relation to the population, is slightly above 4 % in both financial centre regions. Changes in regional financial sector employment in London are affected by significantly higher cyclical fluctuation than in Frankfurt. In 2016, jobs in the financial sector fell by 5 % in the City while they stagnated in the German financial capital.

It is still only possible to make a rough estimate in terms of the Brexit-induced **restructuring process lasting many years** in the framework of European financial centres. In our baseline scenario, termed "Compromise", London would remain the most important financial centre in Europe despite damage to its image and limited access to the Single Market. In view of its pole position, the financial centre of Frankfurt has good chances, however, of gaining at least half of the financial sector jobs that will be relocated from the river Thames. Based on conservative assumptions, this would result in a total of at least 8,000 employees over a period of many years, which should begin to really make itself felt in Frankfurt from 2018. At the same time, a consolidation process is underway in Frankfurt's banks. This results in two contrasting effects in our forecast period until the **end of 2019**. The bottom line is that **Frankfurt can expect to have around 65,000 banking sector employees** then, which would beat previous all-time highs and would represent a rise of 4 % compared with the last available level of 62,400 jobs at the end of 2016. If a significant ripple effect unfolds in terms of migration from London to Frankfurt or if the outcome of negotiations between the United Kingdom and EU is more conflict-laden, the extent of job relocations will be even bigger.

This would further increase the challenges for Frankfurt, especially in terms of housing and schools. On the other hand, the additional demand on the **office market** should be easy to handle in view of a still ample vacancy rate and a range of projects currently under development. The vacancy rate on the **housing market** is practically negligible and an annual influx of around 15,000 new residents have had to be accommodated over the last few years. A strong rise in new construction activity, plans for the years to come as well as significant land reserves in the surrounding districts suggest that the situation on the housing market will not deteriorate significantly in the financial centre region as a result of Brexit.

An important criterion for Frankfurt as a location is the availability of schools, since providing for their families is a key factor for London bankers in addition to their careers. The Frankfurt financial centre region offers a broad range of **international educational establishments**, which has visibly grown over the last couple of years. Currently, there are more than 30 private and state schools offering European and international teaching, some of which are planning to expand. Even today, demand for education is high. The number of children is rising and is expected to continue to rise considerably in the future. In this regard, there is a need to expand Frankfurt's educational infrastructure even further for children of all ages, including all types of school and beyond the additional demand created by Brexit.

Despite the challenges posed by the impending influx of employees from London, Brexit represents a unique opportunity to improve Frankfurt's position in the competition between international financial centres.

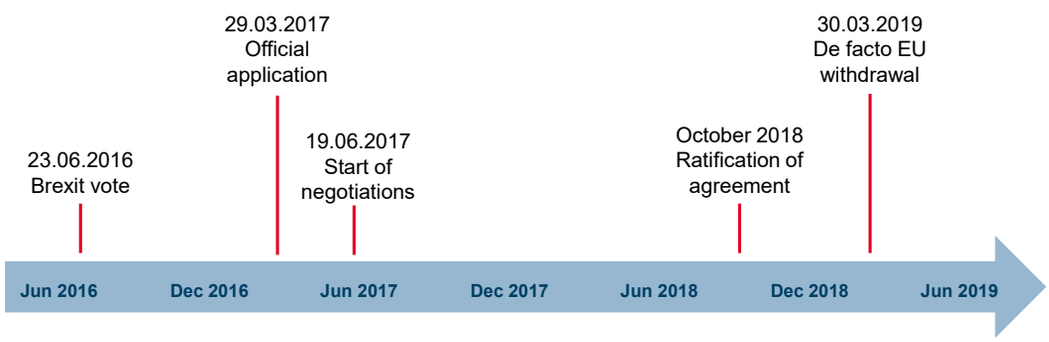
1 Brexit – what's going on?

1.1 Timetable and scenarios

In practise, just over a year left for negotiations

A year will soon have passed since the United Kingdom officially triggered article 50 of the Treaty of Lisbon governing withdrawal from the EU. There continues to be a large degree of uncertainty over the precise modalities, both in terms of the "divorce settlement" as well as the country's future relationship with the European Union. The timetable for agreeing a settlement by the time of de facto Brexit at the end of March 2019 is ambitious, especially considering that it includes a period of many months for ratification of the deal. This means that, in reality, there is not much more than a year remaining by which time negotiations will have to have yielded results. Consequently, it is likely that there will be temporary transitional arrangements in place.

The process of exiting the EU



Source: Helaba Research

In our baseline scenario that we have entitled "Compromise", we assume that the political and economic consequences of Brexit will be limited. While a wide-ranging free trade agreement could be signed for goods, there will probably be some restrictions on services – especially financial services. Despite this, in this scenario the financial centre of London would retain its leading role in Europe (Helaba forecast: 60 % probability). In a "Conflict" scenario (30 %), the British financial centre would sustain considerable damage, because cross-border commerce, particularly in the case of financial services, would be severely impeded by new regulations. This would also be the case if there is no agreement and the United Kingdom simply "falls off a cliff" by suddenly leaving the Union. The least likely, although not altogether impossible, scenario is that of "Cherry Picker", in which the British manage to negotiate significant advantages for themselves in the divorce settlement to the detriment of the EU (10 %). In our opinion, an exit from Brexit is still an unrealistic prospect.

Regulatory approval and establishment of new offices will take time

In view of on-going uncertainty in respect of the regulatory framework during the negotiation phase, there will continue to be considerable speculation, including about possible relocation by London's financial institutions. This is because a large number of them conduct their European business by using so-called EU passporting rights, which are almost certainly going to be lost at the time of Brexit. In order to obtain the appropriate regulatory approval in another member state, such as Germany, they will have to factor in a period of around six months. Depending on their existing type of location in an EU member state, however, it will first be necessary to apply for a banking license, which also has to be approved by the respective national supervisory authority; a process that can take up to a year in Germany. During this time, which could last as long as one and a half years in total, the institutions will also have to grapple with establishing new offices in adequate premises and hiring qualified personnel.

Therefore, the clock is ticking: after all, as from today there is little more than one and a half years remaining before the British officially leave the EU in the spring of 2019. This is accentuated by impending reforms in the United Kingdom to separate banks' retail business from their investment banking activities that are set to take effect at the beginning of 2019. For some credit institutions, this will mean repositioning themselves within the EU. In order to guarantee a seamless provision of services to their customers in Europe, they will soon have to begin the process of making firm relocations plans.

1.2 The view of Frankfurt from London

What is the perception of the German financial centre from the standpoint of the United Kingdom? It is true that some foreign players still harbour stubborn prejudices towards the German financial centre and we deal with this issue in detail in chapter 3 of this study. In general, though, views of Frankfurt have changed for the better since the Brexit vote more than a year ago, even in the British financial press.

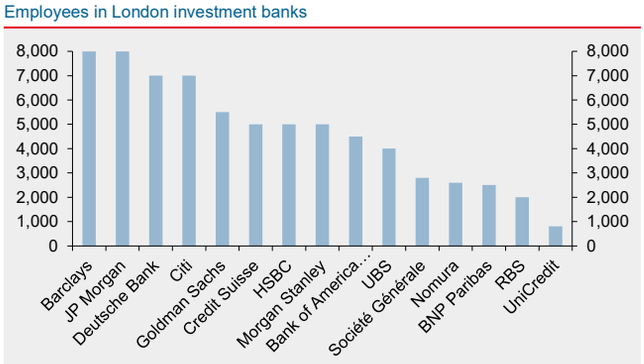
Good reputation of Germany's financial supervisory authorities

The Frankfurt-based supervisory authorities are also receiving more positive attention from London, which boosts the city's prominent position in the process of relocation as a result of Brexit. Even before the informative workshop at the European Central Bank (ECB) in May 2017, the German Federal Financial Supervisory Authority (BaFin) had invited numerous representatives from banks in London to take part in an event in Frankfurt at the beginning of the year. BaFin successfully used this meeting to intensify their contacts to a wide range of banks and to score points by presenting their approval processes in a transparent way and demonstrating their confident command of English. Deutsche Bundesbank, the second pillar in the framework of German banking supervision, also enjoys a good international reputation.

BaFin reported as early as spring that a double-digit number of institutions had indicated an intention to relocate business to Frankfurt. Meanwhile, the first applications for banking licenses have been submitted and discussions about an expansion in activities are likely taking place. Currently, the German supervisory authorities are in touch with a total of around 20 major banks. Financial sector companies interested in relocating are able to obtain the exact information they require on BaFin's homepage and can contact them by using a specially created email address (access@bafin.de).

London banks ready to take the plunge …

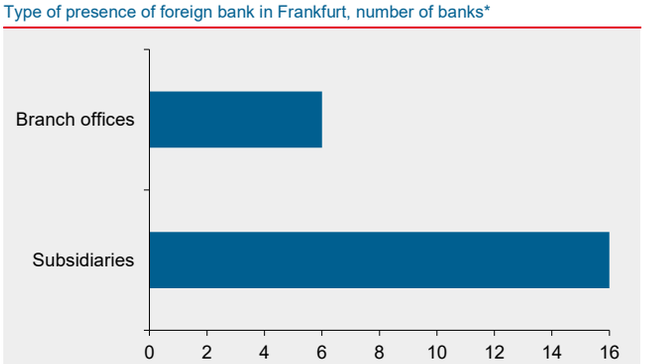
Employees in London investment banks



Sources: Financial Times (2016), Helaba Research

…and are already part of the Frankfurt community

Type of presence of foreign bank in Frankfurt, number of banks*



* incl. duplicate counting for some institutions, selection as in chart on the left;
Sources: Deutsche Bundesbank, Helaba Research

Some London-based investment banks already in Frankfurt for some time

All of the major London investment banks are already prominently represented in the German financial centre, where they have been a central fixture of Frankfurt's lively banking scene for many years; some institutions even have a presence in Germany dating back to the 1920s. The majority of these global players maintain a branch in Frankfurt, with many operating as subsidiaries. To a certain extent, many of them are present with multiple offshoots due to the need for different legal structures in order to cover a range of business segments in Frankfurt. This underscores Frank-

furt's importance as a location in the European strategies of international banks. In this respect, quite a few foreign banks located in London already have a well-established presence in the German financial centre, which is conducive to supervisory approval for further expansion in Frankfurt.

Frankfurt now clear favourite among Brexit banks

By the middle of 2017, only few financial institutions had published their relocation plans. In many cases, any information available was based on rumours or inferences about what financial centre location was being considered or where an institution had already signed options to lease office space. Ultimately, it is likely that the institutions' activities will be distributed among a variety of alternative locations, with a focus on one European financial centre. Since Brexit negotiations got underway in June, some London-based institutions have taken a more forthright approach in terms of their relocation plans. In general, the financial centre of Frankfurt is mentioned more frequently as a favourite; consequently, it has positioned itself as a clear frontrunner in competition with other European locations. Moreover, a number of institutions have meanwhile announced their decision in favour of the German financial centre:

Relocation plans of Brexit banks *



* Announcements in alphabetical order

Source: Press, Helaba Research

For instance, the British bank Standard Chartered and the Swiss bank UBS have decided to establish their European headquarters in Frankfurt; and announcements by Nomura, Daiwa Securities, Sumitomo Mitsui and Mizuho Financial Group mean that four Japanese institutions have opted for the German financial centre in one fell swoop. Goldman Sachs has announced its intention to more than double its Frankfurt-based workforce of currently around 200 people and to expand in other European cities, too, without specifying any details yet. Morgan Stanley is likely to increase its capacities in Frankfurt to a similar extent and to relocate the focus of its activities here. In addition, two major US institutions, Citigroup and Silicon Valley Bank, have made clear pronouncements in favour of the German financial centre, as have the Russian VTB and the South Korean Woori Bank. Deutsche Bank, which currently conducts a large part of its business through London, is planning to relocate important functions to its Frankfurt headquarters.

So far, only few announcements in favour of other financial centres

In comparison to this, there have so far only been two categorical decisions, in each case, to choose Dublin (Barclays, Bank of America), Luxembourg (China Everbright Bank, Northern Trust) and Amsterdam (Mitsubishi UFJ Financial Group, Royal Bank of Scotland) as well as one in favour of Paris (HSBC). J.P. Morgan has announced plans to relocate jobs to the three financial centres of Frankfurt, Dublin and Luxembourg, in which the German financial centre could play a prominent role. The British Lloyds Banking Group also plans to expand its capacity in Frankfurt, despite choosing Berlin as their future European headquarters. A number of additional institutions have expressed a preference for Frankfurt, or at least for relocating part of their business here in the scope of measures to restructure their European operations. In addition to all these banks, there are many other financial sector players with a focus on the German financial centre. The result is that an impressive pro-Frankfurt critical mass has formed, which includes many renowned institutions. The more official declarations there are in favour of the German financial centre as the preferred place to relocate business, the more likely it is that a certain ripple effect will develop from London to Frankfurt. In chapter 4, we outline what the relocation of London-based banks' activities will mean in practice for the employment situation in Frankfurt.

2 Frankfurt as the principal Brexit beneficiary

2.1 Ranking: London before Frankfurt before Paris

Helaba study: Frankfurt leading in Continental Europe

The role of the German financial centre as the favourite in the Brexit-related restructuring process is no coincidence: Frankfurt is the leading financial centre in Continental Europe, as we determined in our detailed 10th anniversary edition of the Helaba financial centre study in the summer of 2016.[1] Our indicator-based comparative locational analysis led to the following clear order of importance in Europe: London before Frankfurt before Paris.

Anniversary study 2016: Assessment of the three largest European financial centres

	Frankfurt		Paris		London	
	2006	2016	2006	2016	2006	2016
Banks	😐	😐	☺	😐	☺	😐
Stock exchanges	☺	😐 *	☺	😐	☺	☺
Fin. sector teaching & research	😐	☺	☺	☺	☺	☺
Trends in the financial sector	😐	😐	😐	☹	☺	☺
Location-specific qualities	☺	☺	😐	😐	😐	😐

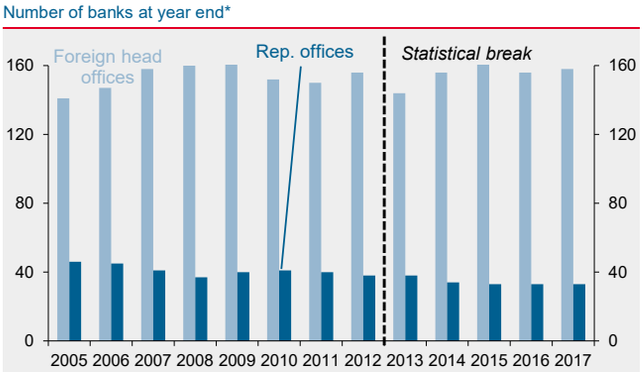
☺ indicates that the financial centre is well positioned in terms of its international competitiveness; ☹ points to deficits; 😐 represents a midrange position. * Would have resulted in a ☺ assessment at the time of the study anyway, even without plans by Deutsche Börse and the London Stock Exchange to merge.
Source: Helaba Research

Frankfurt has strong appeal for both domestic and foreign banks

With its numerous qualities as a location, and the prominent position it assumes within the framework of European financial centres, Frankfurt has been extremely attractive to both domestic and international players for a long time. For many years now, an increasing number of non-domestic credit institutions have taken an interest in the German financial centre, which has become a melting pot of nationalities. In the middle of 2017, around 160 foreign banks were operating from Frankfurt, which represents 80 % of all banks located here with a head office. On top of that, there were more than 30 representative offices of foreign banks as well as some central banks from other countries that maintain close contact to players in the local financial community. Meanwhile, in addition to the Association of Foreign Banks in Germany, the European Banking Federation as well as various national industry representatives have also established a presence in Frankfurt.

Numerous foreign banks in Frankfurt …

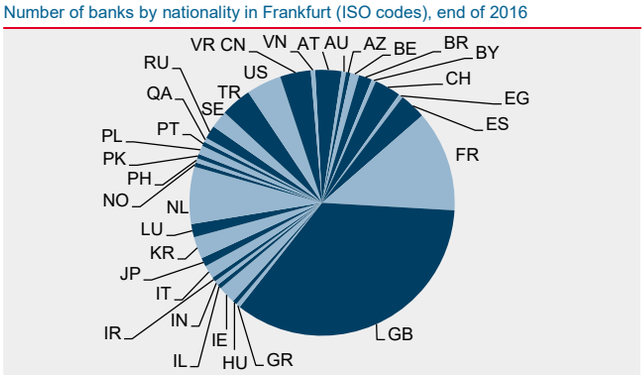
Number of banks at year end*



2017: Q2;
Sources: Deutsche Bundesbank, Helaba Research

… with a wide range of nationalities

Number of banks by nationality in Frankfurt (ISO codes), end of 2016



Sources: Deutsche Bundesbank, Helaba Research

In the current debate surrounding an exodus of business and people from the City of London, the following assets that Frankfurt enjoys are particularly significant: the stability and strength of the German economy, the headquarters of the ECB in its dual function, the role of the city as a

[1] cf. Helaba Research (June 2016): "Financial Centre of Frankfurt: Making further Headway"

transport hub with good infrastructure, relatively affordable office rents as well as a high standard of living that also offers a varied range of recreational activities in the city and its green environs. Despite serious competition in the course of the restructuring process triggered by Brexit, Frankfurt as a location is thus in an ideal position to become the principal beneficiary. We had already come to this conclusion in our Financial Centre Focus at the end of 2016, in which we conducted a more in-depth analysis into various different aspects of competition between financial centres in Europe.[2]

Alternative location for European activities – Frankfurt predestined

Certain institutions, in the scope of their group strategies, may also decide to relocate some business away from Europe to the global financial centres of New York or Hong Kong, for example. However, the main focus is on European business, for which they will be forced to seek an alternative location due to the loss of the EU passport. In this respect, with its role as a springboard in the heart of Europe, Frankfurt leaves the competition well and truly behind. As previous Helaba surveys have shown, many foreign banks specifically opened an office in Frankfurt from which they could conduct business in neighbouring countries.[3]

2.2 Improved competitive position

Damage to London's reputation

The previous assessment that we arrived at, that the German financial centre was in an excellent position within Europe and had a good chance of being the principal beneficiary of Brexit, is still valid. What is more, in the meantime Frankfurt's relative appeal has grown and, even today, the damage to London's image can no longer be explained away. The persistent high degree of uncertainty about future arrangements in the United Kingdom alone means that many companies operating internationally would rather choose a different location when it comes to making capital expenditure decisions and establishing a new branch. The consequence of this is that the United Kingdom is falling out of favour with foreign investors and Germany, which has always been attractive, should notice a greater inflow of foreign direct investment. Apart from the qualities of the German economy, its integration at the heart of the world's largest single market is a significant advantage. The United Kingdom's future role is unlikely to remain a bridgehead to Europe any more.

Furthermore, the collapse of the planned merger between Deutsche Börse and the London Stock Exchange can be viewed in a positive light, especially in relation to London. This is because Frankfurt's stock exchange was not downgraded by being "incorporated" by London, as we had assumed at the time of our smiley assessment in the middle of 2016. Instead, Deutsche Börse is now able to go its own way with its head held high which, in view of increasingly tough global competition, may also be possible should the opportunity of a more worthwhile merger arise. On top of that, the cluster of key financial institutions in Frankfurt could soon become even larger, further strengthening the city's role as the hub of European supervision, if the cross-border banking supervisory authority EBA (European Banking Authority) is relocated from London to Frankfurt. With regard to the catalogue of criteria that form the basis for the EU's decision on an alternative location in the autumn, Frankfurt's hopes of being chosen to host the EBA's new home are justified.

Flanked by a variety of marketing activities, the city on the river Main is in pole position in terms of an influx of workers from the Thames. Taken together, this all means that the odds are increasing that Frankfurt will emerge from the multi-year restructuring process in the European financial sector as the principal beneficiary of Brexit and that its position in the global financial system will become even more important. At the same time, there are things that the German financial centre can and should do to strengthen its special position. Permanently changing the perception of Frankfurt's attractive and international character (cf. chapter 3) is just as important as dealing with the issues of the real estate market and schools (cf. chapter 5).

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[2] cf. Helaba Research (November 2016): "Brexit – Let's go Frankfurt"

[3] cf. e.g. Helaba Research (March 2015): "Financial Centre of Frankfurt: Upwards with China", or (January 2011): "Financial Centre Frankfurt: A Magnet for Foreign Banks"

3 The Cosmopolitan City on the River Main

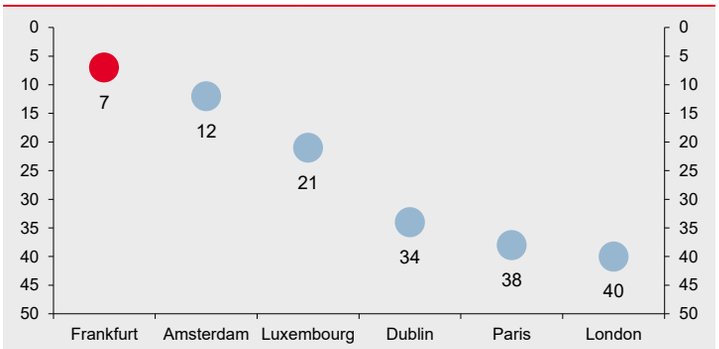
3.1 Frankfurt's international character

Frankfurt's attractive own character

Recent years have seen Frankfurt am Main experience a radical transformation into what is today a multicultural city. It has made noticeable progress, especially in terms of its international character, and possesses a charm of its own, something that should be apparent to anyone who approaches the city without any preconceptions. Frankfurt is not London and does not want to be, either. The city on the river Main, which is considered somewhat sedate and skilfully combines its traditional origins with a modern way of life, simply has a different character to the trendy City of London. The prejudices that are constantly revived, that Frankfurt is a provincial city in which English does not get you very far, are unequivocally passé. They must continue to be dispelled with a concerted and confident marketing campaign so that today's picture of an aspirational, multifaceted financial capital finally predominates. After all, Frankfurt has an enormous amount to offer an international crowd and this is reflected in the vibrancy of the city's community.

High standard of living in Frankfurt

International quality of living city rankings 2017



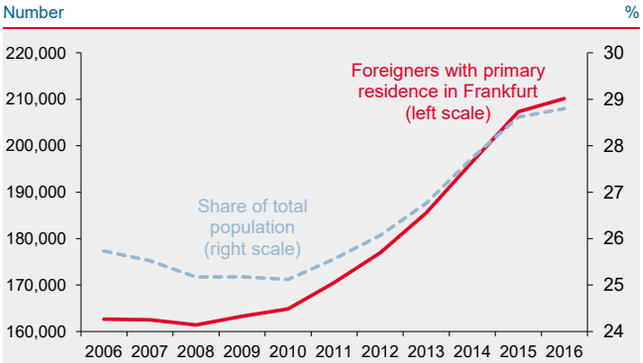
Source: Mercer, Helaba Research

Higher quality of living in Frankfurt than in London

What stands out is Frankfurt's high quality of living compared to other cities in the world. This is despite the fact that the city on the river Main – in contrast to most of its European financial centre competitors – is not a national capital. In a ranking of liveable cities, Frankfurt is far ahead of its rivals. This is impressively demonstrated by a global comparative study conducted by the consulting firm Mercer, for example, which assesses the quality of living in around 230 major cities from the perspective of expatriates. In this study, Frankfurt is ranked seventh – with London lagging far behind (in 40th place).

Growing foreign population in Frankfurt

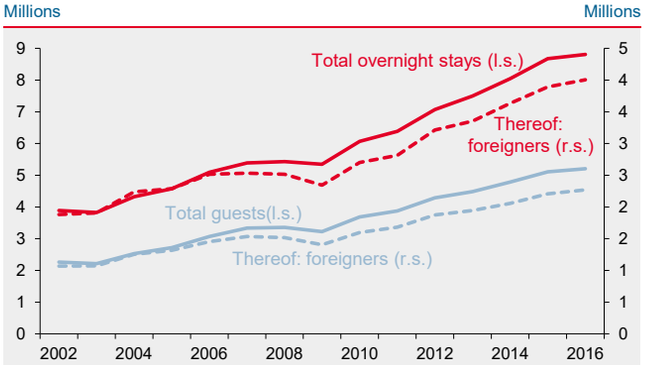
Number %



Sources: statistical yearbook for Frankfurt, Helaba Research

Tourism on the rise

Millions Millions



Sources: Tourismus & Congress GmbH, Helaba Research

What aspects reflect the growing international character of the German financial centre? First of all, the city's foreign population has been growing more rapidly than the overall population, with the result that the proportion of non-German residents rose from around 25 % in the years 2008-2010 to 29 % in 2016. By the end of last year, there were 210,200 people of non-German origin within Frankfurt's city boundaries, of whom about half were from the rest of the EU and, in total, came from 177 different countries. In respect of tourism, too, there is a discernibly higher interest among a wide range of nationalities, which is evidenced by an upward trend that has been continuing for years. Last year, for instance, around 45 % of all visitors to Frankfurt who stayed overnight were from other countries (more than 2.3 million). The proportion of nights spent in Frankfurt was equally high, amounting to just over 4 million.

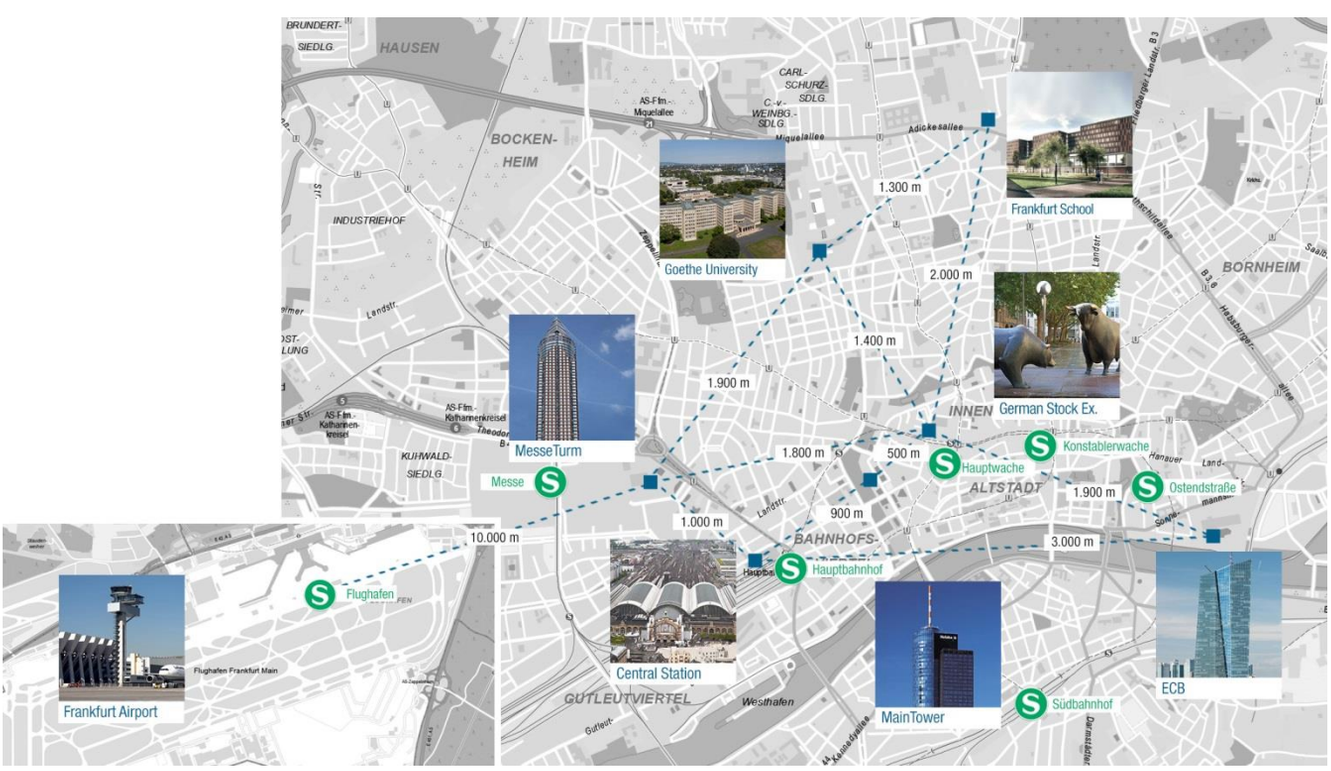
English widely spoken in Frankfurt

A key advantage for Frankfurt's international appeal is the fact that, in the meantime, English has become the de facto lingua franca. This is immediately obvious if you take a walk through the city and is also reflected in the range of international schools available (cf. chapter 5.2). The wide range of English language facilities and services, that stretch across the whole area of the city, are becoming increasingly popular and expanding accordingly (cf. chapter 3.2). In addition, in central commuter train (S-Bahn) stations and in some underground train (U-Bahn) stations, announcements are also made in English, a service that the local public transport operator wants to expand even further.

International transformation noticeable in many areas of the city

A number of factors have simultaneously acted as catalysts in contributing to increasing the prevalence of English in the city: the banking and trade fair district, with its numerous players (indicated in the picture below by a central office high-rise in each case), key institutions such as the ECB or Deutsche Börse, the two universities with their modern campuses and, finally, the transportation nodes of the central railway station and the airport in their roles as principal European hubs. Over the years, the transformation of the city into an international centre has left an indelible mark on the city's appearance. A map of the city that focuses on all of these points illustrates this:

Catalysts for Frankfurt's international transformation*



* including commuter rail (S-Bahn) stations with English information

Sources: © Hessian State Office of Land Management and Geological Information, geo reference data: © City Surveyor's Office, Frankfurt am Main, As of June 2017 1:50 000, Helaba Research

Proximity of community advantage for business

In addition to the international transformation process, this map illustrates another of Frankfurt's assets: its manageable size. The distances shown between the various "catalysts" on the map of the city centre demonstrate how easily and quickly the players in Frankfurt's community are able to communicate with one another. Thus, what is sometimes ridiculed by outsiders as provincialism is proving to be a clear advantage: In this city of short distances with an excellent transport infrastructure, the daily commute to the office is still straightforward, even for the many commuters from outlying districts. Office workers are able to enjoy countless lunch meetings, virtually en passant, on or near the "Fressgass", a cobblestoned pedestrian area known for its cafés and restaurants. Consequently, the proximity of the various players to each other in the financial centre is a significant factor contributing to their business success; and the supposed weakness of Frankfurt being a compact city is, in fact, an advantage that players in the German financial centre have come to appreciate.

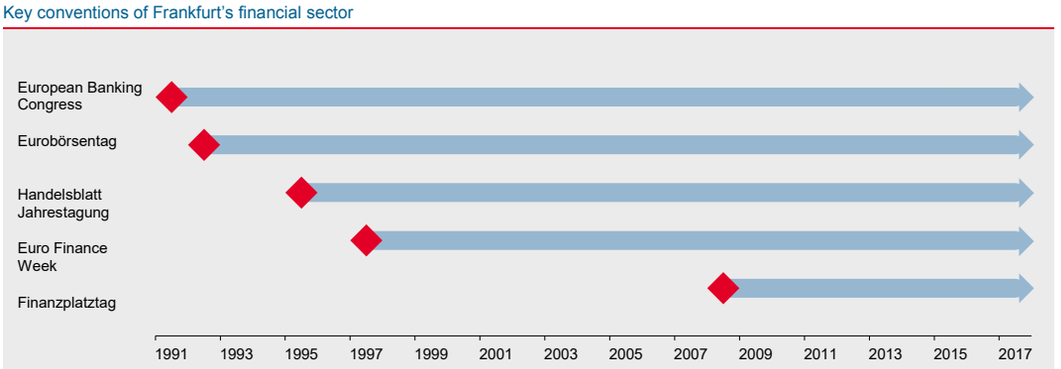
3.2 Frankfurt's citizens benefit from attractive infrastructure

Prestigious conventions

The hive of activity in Frankfurt's financial sector is supported by an appropriately well-developed culture of hosting conventions and meetings – with positive effects for the city's international perception. Thanks to a tradition stretching back for decades and to their high degree of effectiveness, the following key conventions have become established fixtures in the German financial centre (in order of when they were founded): the European Banking Congress, the Eurobörsentag (stock market conference) by Börsenzeitung, the Handelsblatt Jahrestagung (banking summit), Euro Finance Week and the Finanzplatztag (financial centre conference). These annual events provide a forum for prominent representatives from business, politics and academia to come together.

Well-developed culture of events in the business community

Key conventions of Frankfurt's financial sector



Source: Helaba Research

Apart from this, a large number of additional conferences breathe life into Frankfurt's community, such as symposia by Deutsche Bundesbank with top-class line-ups, series of lectures at local universities as well as events focussed on specific topics organised by a variety of seminar providers. Furthermore, there are thousands of events organised by other industries, e.g. the International Motor Show IAA, the Frankfurt Book Fair or well-known medical conventions. Even if most of the almost 74,000 conferences in 2016 were of a smaller nature, this is becoming an increasingly important economic factor for Frankfurt. Foreign event organisers, responsible for around a fifth of all events, make an important contribution to this.

Haute cuisine in the Frankfurt region

The German financial centre also provides an international crowd with a wide-range of gastronomical and cultural highlights, which are often marketed in English. The Frankfurt region even has haute cuisine on the menu. This year, the Michelin guide, considered the "gourmet's Bible" by connoisseurs the world over, has awarded the coveted star to twelve restaurants here; three other establishments even received two stars. The majority of these top-rated restaurants have English websites and therefore appeal to visitors of various nationalities.

Michelin star restaurants in and around Frankfurt 2017*

	Town	Michelin stars	Website in English	
			yes	yes
Lafleur	Frankfurt	**	x	
Tiger-Gourmetrestaurant	Frankfurt	**	x	
Villa Rothschild Kempinski	Königstein	*	x	
Atelier Wilma	Frankfurt	*	x	
Carmelo Greco	Frankfurt	*	x	
Ernos Bistro	Frankfurt	*		x
Français	Frankfurt	*	x	
Gustav	Frankfurt	*	x	
Restaurant Villa Merton	Frankfurt	*	x	
Seven Swans	Frankfurt	*		x
Weinsinn	Frankfurt	*	x	
Scheller's Restaurant	Bad Homburg	*		x
Jean	Eltville	*		x
Ente	Wiesbaden	*	x	

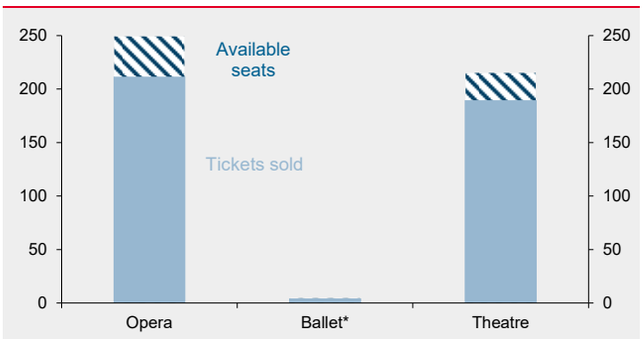
* excluding Sra Bua by Juan Amador (meanwhile closed due to staff changes);
Sources: Guide Michelin, restaurant websites, Helaba Research

Frankfurt's trendy nightlife scene

For some time now, Frankfurt has also been making a name for itself as a place to find trendy bars. Among the countless locations are many stylish scene hangouts in which high-profile barkeepers serve their creations to international guests and are sometimes open long into the night. In addition, the German financial centre has a number of pubs and places to offer that are considered fashionable "in" locations. For example, the area around the central railway station has been transformed from being a trouble spot into a popular and cool neighbourhood that has been celebrating its diversity for ten years by organising an annual party event.

Frankfurt offers wide variety of cultural activities …

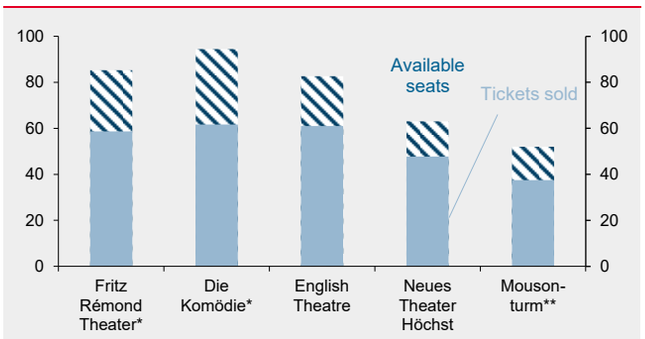
Thousands, in 2015/2016 season, municipal theatres



* only on own stage;
Sources: Statistical yearbook for Frankfurt, Helaba Research

… with available seating capacity

Thousands, in 2015/2016 season, non-municipal theatres



* only on own stage; ** in 2015;
Sources: Statistical yearbook for Frankfurt, Helaba Research

Varied cultural activities with international character

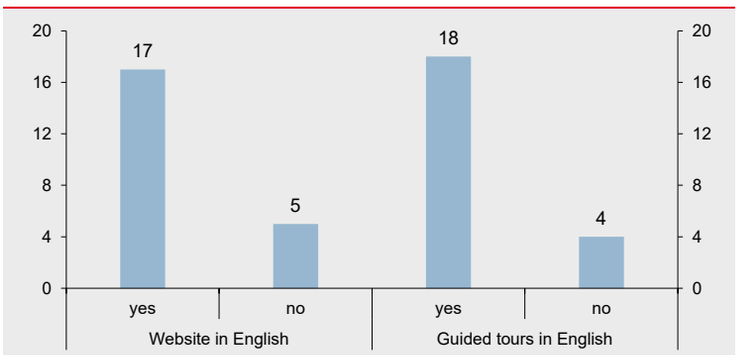
Frankfurt's cultural scene, which has an international character, is enlivened by many theatres that contribute to the charm of and quality of life in the German financial centre. Incidentally, the financial and cultural sectors are connected inasmuch as many local cultural activities are made possible thanks to sponsoring by banks. Frankfurt's municipal theatres alone, which also have an English-language web presence, provided a total of almost 470,000 seats (capacity utilisation of around 90 %) in the 2015/2016 season. The major non-municipal venues made more than 377,000 seats available, of which around 70 % of tickets were sold. Moreover, Frankfurt and its environs play host to a considerable number of classical concerts with renowned artists (e.g. Alte Oper and Rheingau Music Festival). Among others, the wide range of theatres also includes the acclaimed English Theatre, the largest of its kind in Continental Europe that is located directly in the banking district. With its diverse events, including a monthly English meet-up for expats and Germans alike,

its acts as something of a nucleus for the foreign community in Frankfurt. Frankfurt is also home to Germany's leading variety club, the Tigerpalast, with its top-class line-up of international revue artists.

The German financial centre also has an abundance of concert halls (e.g. the Festhalle or the Jahrhunderthalle) as well as a diverse assortment of trendy music venues where bands and solo artists give regular performances. This summer, the Rhine-Main area has hosted an almost continuous stream of international pop and rock stars. Among the different festivals that take place here, World Club Dome and Wireless Germany, to name a few, are particularly well known.

Many of Frankfurt's museums have English-language services

Number*



* from 15,000 visitors upwards in 2015
Sources: Museums, statistical yearbook for Frankfurt, Helaba Research

English widespread in lively cultural scene

In addition to this, Frankfurt has a lively museum quarter along the riverbank of the Main with a number of exhibition locations. The cultural spectrum ranges from the general, all-encompassing art gallery all the way to small, specialised collections. In many local museums, an English website is just as common as English-speaking guided tours (around 80 % in each case). In this respect, the prevalence of English in Frankfurt's multifaceted cultural scene English is similar to that of its restaurant scene.

Lastly, the region around Frankfurt provides very good local recreational opportunities. A large number of culturally attractive landscapes and destinations can be reached quickly and conveniently from the German financial centre. This is where the polycentric structure of the Rhine-Main Metropolitan Region is most noticeable: urban areas, including the centres of Frankfurt, Darmstadt, Mainz and Wiesbaden, are frequently punctuated by extensive green belts. As a major city, Frankfurt not only has many forests and parks but also a multitude of nearby countryside destinations that are easily accessible within an hour's drive.

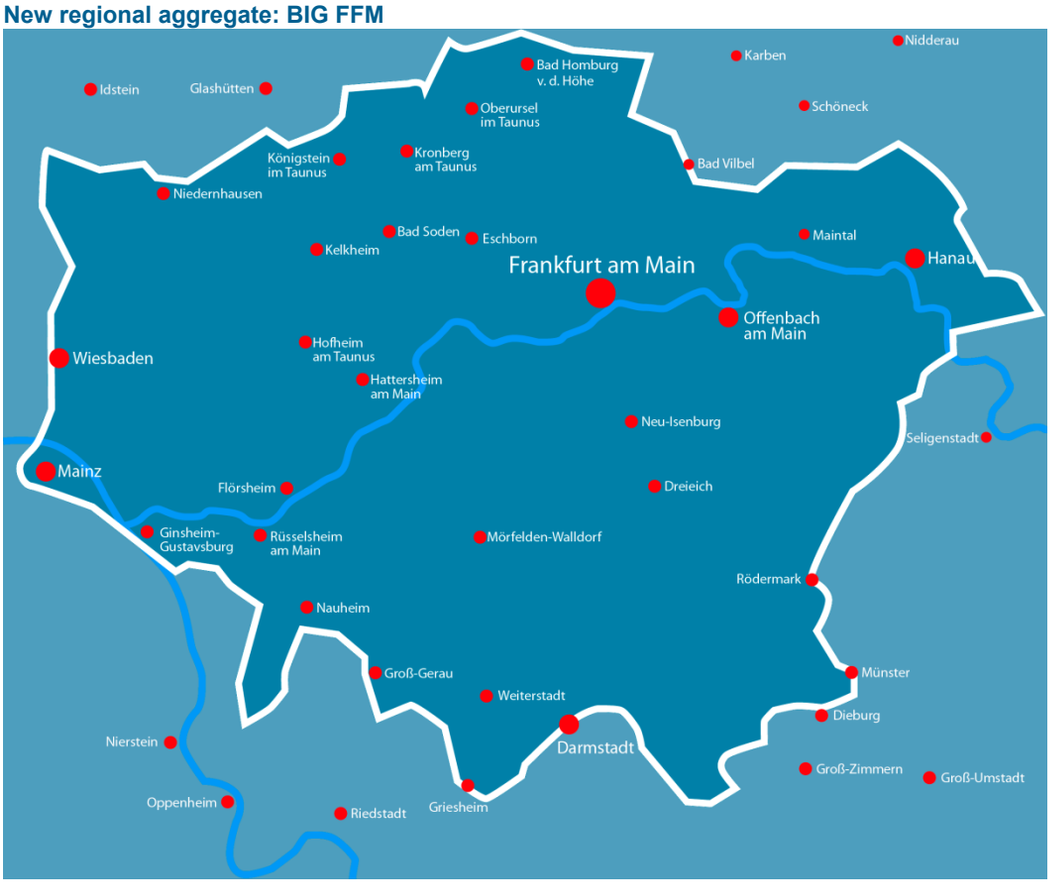
4 Employment in and around Frankfurt

4.1 New regional aggregate: BIG FFM

Novelty: Regional employment aggregate

A novelty of Helaba's long-running financial centre research in this study is our own regional employment aggregate – financial sector employment within 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.

New regional aggregate: BIG FFM



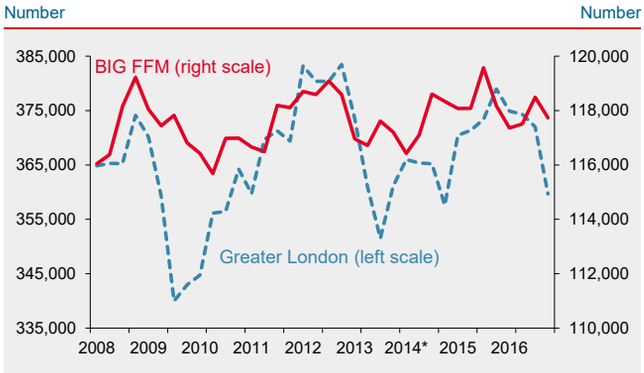
Sources: © Hessian State Office of Land Management and Geological Information. (Scale: 1: 225 000), Helaba Research

Employment density in BIG FFM just as high as in Greater London

According to this, around 118,000 people were employed in the sector of financial and insurance services within BIG FFM, which compares to approximately 360,000 in Greater London (as at end of 2016). However, employment density, that is to say in relation to the population, is slightly above 4 % in both financial centre regions. Financial sector employment accounts for around 8 % of total employment in BIG FFM, compared with 6 % in Greater London. The development of regional employment in the financial sector since the outbreak of the global financial crisis in 2008 shows that, as a result of its more relaxed labour laws, the industry in London has reacted in a significantly more cyclical manner than in Frankfurt. In 2016, jobs in the financial sector fell by 5 % in the City while they stagnated in the German financial capital.

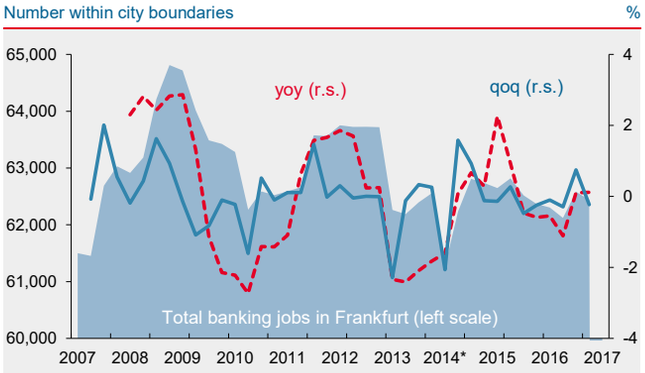
Overall, the German financial centre is characterised by a particularly solid employment situation. Our new financial employment aggregate for BIG FFM reveals a similar development to changes in financial sector and banking employment in the city of Frankfurt itself, which amounted to approximately 74,700 and more than 62,400, respectively, at the end of 2016. These figures represented a recent share of total employment in both areas of 13 % and 11 % in each case.

Regional financial sector employment in London considerably more cyclical than in Frankfurt



* Statistical break; Sources: German Federal Employment Agency, German Federal Statistical Office, ONS, Helaba Research

Moderate and wavelike changes in Frankfurt's banking sector employment for years



* Statistical break
Sources: German Federal Employment Agency, Helaba Research

Since the financial market crisis erupted in 2008, there has been a wavelike adjustment to staffing levels in local banks. A small number of job losses until the middle of 2010 were followed by the recruitment of many new employees before the trend reversed again, albeit only temporarily, in the first half of 2013. Abstracted from a one-off statistical effect at the beginning of 2014 and the usual seasonal variations, banking employment in Frankfurt then stagnated until the end of 2016, despite the fact that signs were pointing towards a further consolidation.

4.2 Forecast for banking sector employment in Frankfurt

Baseline forecast: London to lose around 16,000 financial sector jobs

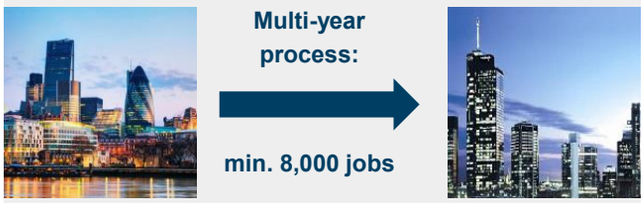
It is still only possible to make a rough estimate in terms of the Brexit-induced restructuring process lasting many years in the framework of European financial centres. In this respect, our baseline scenario, entitled "Compromise" (cf. chapter 1.1), is subject to conservative assumptions: moderate cuts of 5 % would affect around 18,000 jobs out of a total of approximately 360,000 employees working in London's financial sector at the end of 2016. In view of the challenging environment, previous layoffs in the City are likely to be followed by further cuts (possibly around 10 % of the 18,000 jobs). This would result in more than 16,000 jobs that would be relocated from London, purely related to the financial sector and not to any associated business sectors. The much-discussed relocation of the European Banking Authority or euro clearing activities are also not included in this figure, since there is still a lack of clarity on both issues at the moment. In addition to the forecast relocation of jobs, the continuing high level of uncertainty surrounding future arrangements in the United Kingdom is prompting new players to choose alternative financial centres. Overall, this means that the significance of alternative locations will grow over the next few years, even though London should remain the leading financial centre in Europe as a whole.

At least half of Brexit bankers to migrate from the Thames to the Main

Since the financial centre of Frankfurt is in pole position in competition for Brexit bankers, we assume that at least half of the available jobs will be relocated from the river Thames to the river Main. This transfer of an estimated 8,000 jobs, which will probably take many years, is increasingly becoming more tangible and should really make itself felt from 2018 onwards. Although the relocation process is officially supposed to be complete by the time the British officially exit the EU in the spring of 2019, there are likely to be transition periods specific to each institution that have yet to be negotiated and are thus currently difficult to predict. The expansion of financial activities in Frankfurt will depend on their duration. However, in order to seamlessly serve their customers at an accustomed level of quality and to the same extent as before, institutions will not only relocate existing employees from London but also recruit new ones in Frankfurt. In the German financial centre, they will have access to highly-qualified personnel, especially in light of the trend towards consolidation that is currently underway in the city's banks.

Baseline scenario “Compromise”: Estimated job relocations from the river Thames to the river Main

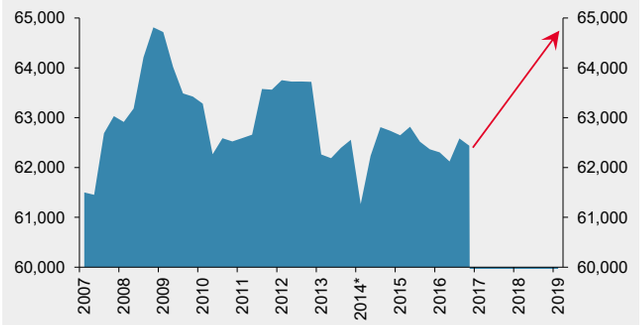
Financial sector employment



Source: Helaba Research

Forecast for Frankfurt’s banking employment: Brexit growth stronger than consolidation until end of 2019

Number of bank employees within city boundaries



* Statistical break;
Sources: German Federal Employment Agency, Helaba Research

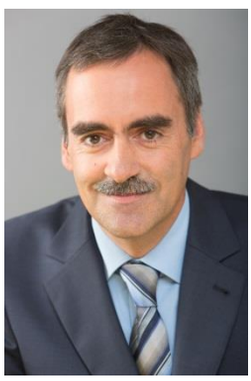
4 % growth in banking employment to 65,000 jobs by end of 2019

In our forecasting period until the end of 2019, two divergent effects will take hold with Brexit-related migration and adjustments to local capacities. While a process of consolidation will primarily occur this and next year, employment growth in the German financial centre due to Brexit should become more clearly noticeable from 2018 onwards. The bottom line is that Frankfurt can expect around 65,000 banking sector employees then, which would beat previous all-time highs and would represent a rise of 4 % compared with the last available level of 62,400 jobs at the end of 2016. Thus even a cautious estimate of a Brexit effect would have a greater impact on the local job market than consolidation. For the following years, a significant number of additional jobs can be expected to migrate from London to Frankfurt, even though there may be some repatriation in the medium term as a result of regulatory arbitrage.

What is more, if a significant ripple effect unfolds in terms of migration from the river Thames to the river Main or if the outcome of the negotiations between the United Kingdom and EU is more conflict-laden, the extent of job relocations would be even bigger. In this scenario, it is conceivable that there would be considerably more than double the minimum of 5,000 job relocations to the German financial centre by the end of 2019 than we calculated in our baseline scenario using conservative assumptions. This would make the challenges for Frankfurt even greater, especially in terms of housing and schools. At the same time, Brexit represents a unique opportunity to improve Frankfurt’s position even further in the competition between international financial centres.

5 Focus on locational factors

The German financial centre is in pole position for Brexit-related migration – which is exactly why it should tackle a number of pressing issues. This is because relocations from London will undoubtedly pose a challenge to the city. To some extent, the additional demand will be met by a market that is growing dynamically. This mainly applies to products and services in the areas of culture, restaurants, nightlife and shopping facilities. The financial sector region should approach the expansion of these underlying locational factors with an open mind in terms of regulation. However, what does the situation look like in respect of the real estate market and educational facilities?



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5.1 Real estate market

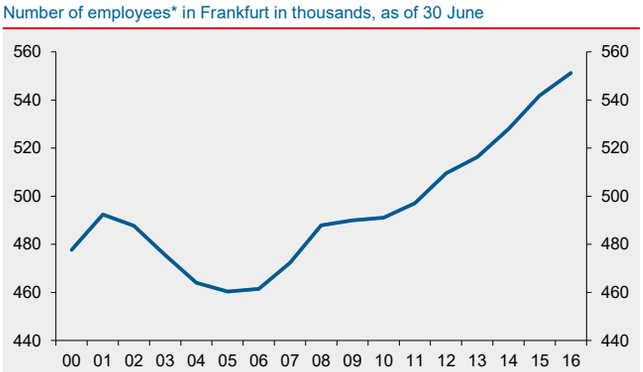
The effects of Brexit on Frankfurt's office market

With the starting gun having been fired for Brexit negotiations, the situation on Frankfurt's office market is positive. Despite modest rises in average office rents, they are still significantly below their all-time highs at the turn of the millennium. In comparison to other leading German office markets, rents in Frankfurt are by far and away the highest of all. However, it seems rather affordable compared to other European financial centres: Rents in Frankfurt are significantly lower than those in London and noticeably below levels in Paris and Dublin. This is most definitely an advantage in terms of competition between financial centres that should not be underestimated.

At first glance, the amount of available office space in Frankfurt should mean that the relocation of thousands of additional bank employees will be easy to manage. Over the last few years, the vacancy rate has fallen considerably from over 15 % to around 10 %. A boom in employment, which was already underway before the Brexit vote, contributed to this: In the five years from 2012 to 2016, the number of employees subject to social insurance contributions rose by 54,000 (of which around a half are estimated to be office jobs).

Demand for office space mirrors employment growth

Number of employees* in Frankfurt in thousands, as of 30 June

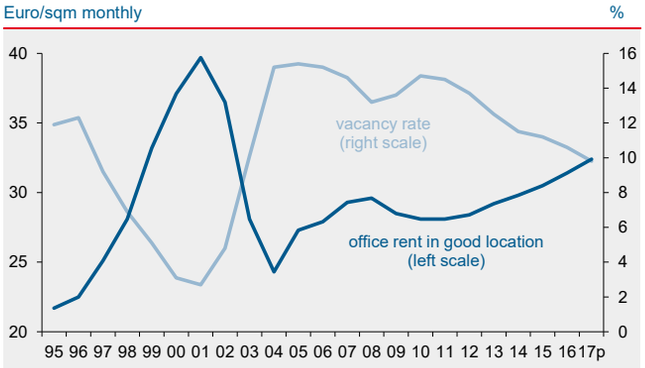


*Subject to social insurance contributions

Sources: German Federal Employment Agency, Helaba Research

Modest rent increases; declining vacancy rate

Euro/sqm monthly %



Sources: Scope, Helaba Research

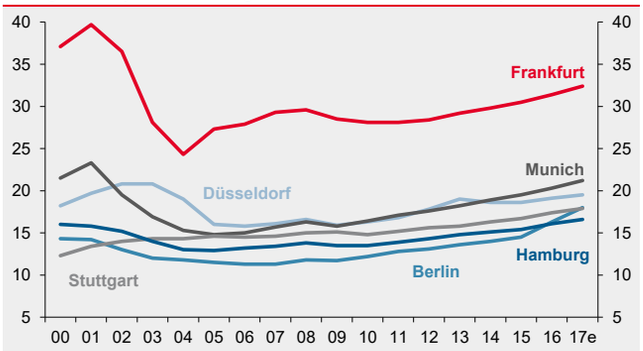
However, Frankfurt still has the highest vacancy rate anywhere in Germany, while in other top locations there is already a scarcity of office space. What was seen as a weakness for a long time is now proving to be a locational advantage. Of the total office space of approximately 12.5 million sqm, around 1.2 million sqm is vacant. This is fortuitous because the Frankfurt office market is now clearly moving up a gear thanks to Brexit.

On closer inspection, the Frankfurt office market appears somewhat more diverse: a large proportion of vacant space is not in the central locations preferred by the financial sector and of the high quality that Brexit newcomers expect. Nevertheless, in principle around half of the current vacant

office space should satisfy the high demands of the banks, of which at least 250,000 sqm is located in the favoured Central Business District (CBD).

Office rents highest in Germany…

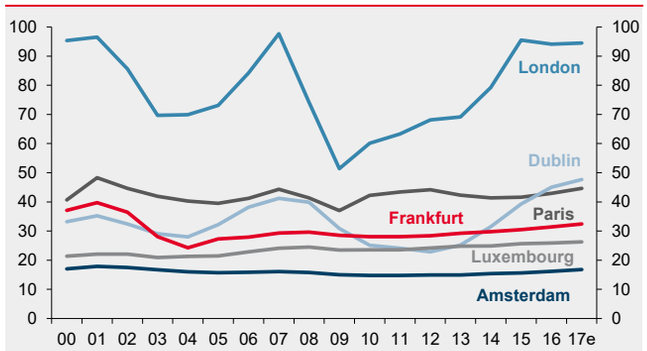
Average monthly office rents in good locations, EUR/sqm monthly



Sources: Scope, Helaba Research

… but only moderate among financial centres

Average monthly office rents in good locations, EUR/sqm monthly



Sources: Scope, Helaba Research

Increased number of office leases soon expected to be signed

A whole host of banks aiming to relocate from London to Frankfurt will probably be looking for larger, interconnected spaces in central locations. If many institutions show a simultaneous interest for this market segment, it may not be possible for all of them to find suitable space at short notice. However, some banks will be able to accommodate additional employees at their existing offices, while others will be dependent on renting new properties. If the customary lead times for property searches, lease negotiations, adequate refurbishment or upgrading work as well as, finally, moving into the new office space are factored in, only limited time remains before Brexit proper takes place in the spring of 2019. For this reason, with companies having already reserved options on office space, it is likely that the first leases will soon be signed.

First of all, individual banks will come to Frankfurt with a limited number of employees in order to gain a foothold in the EU. It will take some time before they increase their workforces. This means that not all institutions will necessarily require the perfect office space, at least not initially, and the demand for space by some new banks will be modest to begin with. The Brexit-induced gain of at least 8,000 office workers in Frankfurt will thus not happen overnight but will instead be a process lasting several years, as described above. Furthermore, Frankfurt's major banks are currently implementing large-scale reductions to their staffing levels with the consequence that, when taking these consolidation measures into account, the net effect will probably be less pronounced.

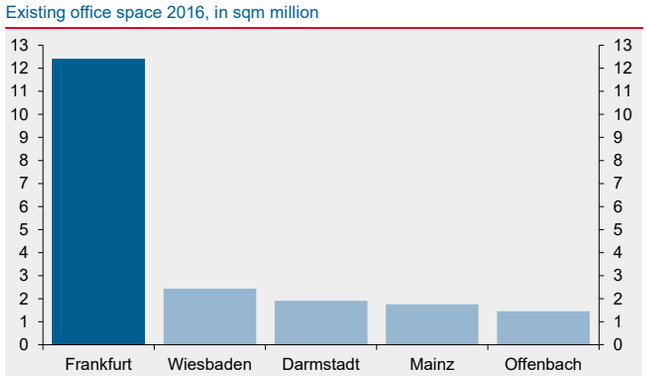
Selected office developments in Frankfurt

Project	office space, sqm	completion
Winx Tower	32.000	end 2017
Marienforum	12.000	early 2018
Omniturm	44.000	end 2018
Marienturm	44.500	early 2019
Grand Central	45.000	2020
Four Frankfurt	100.000	2021/2022
Tower One	42.000	2021
Honsell-Dreieck	55.000	2023

Sources: Press releases, Helaba Research

Frankfurt dominates office market in Rhine-Main area

Existing office space 2016, in sqm million



Sources: Scope, Helaba Research

Well-stocked pipeline to prevent shortages on office market

Assuming an average per capita office space of around 20 sqm (more seems unrealistic since London bankers are used to a rather "efficient" use of office space) results in additional, purely Brexit-related, demand of as little as approximately 100,000 sqm by the end of 2019. This would not even correspond to half of the current vacant office space in the CBD. Furthermore, until the Brexit effect unfurls more strongly, new space will expand supply on Frankfurt's office market (see

table above). For instance, the Winx Tower, the Omniturm as well as the Marienforum/Marienturm developments, which are nearing completion, will increase office space in central locations by more than 130,000 sqm. This will be complemented by a range of smaller projects. However, until the largest project known as “Four Frankfurt”, which will provide around 100,000 sqm of office space on a plot previously occupied by Deutsche Bank, is realised, prospective tenants will have to wait another four years.

Many additional office jobs in other sectors

However, even Frankfurt does not consist exclusively of banks. Additional demand as a result of Brexit comes during a period of strong economic activity in which numerous jobs are being created in other industries, too, especially in the dynamic Rhine-Main region. Over the last few years, employment growth in the city has occurred almost entirely in non-financial sectors. In the context of banks relocating to Frankfurt, it can safely be assumed that other service sector companies will also raise their staffing levels in the German financial centre. The upshot of this is that the total number of office workers should rise at least twice as fast as would otherwise be expected with an isolated Brexit effect. Even this additional demand could be satisfied with the existing stock of office space in central locations as well as completions of new properties in the next couple of years without any major problems.

New construction activity to limit potential for rent increases

Therefore, in the years to come Brexit will amplify an already positive development on the Frankfurt office market and contribute to a continued fall in the vacancy rate. However, in view of a well-stocked pipeline of projects, we do not expect the vacancy rate in Frankfurt to approach the very low levels of other top German locations (such as Munich or Berlin, with 3 % to 4 %). Thanks to the Brexit effect, rent increases in good locations will probably be somewhat higher over the next one to two years. Before rents pick up more rapidly, though, incentives such as rent-free periods or the assumption of refurbishment costs will be reduced, which indications suggest is already happening. In light of new construction projects either currently underway or in the planning stages and the possible revitalisation of existing properties, however, there will not be any real shortage of space with continuing higher rent growth. Frankfurt remains Germany’s most expensive office location but is still affordable in comparison to other European centres. In terms of letting turnover, at least, Brexit may lead to new record highs.

Boost for secondary locations also likely

Since interest from established as well as new banks in the financial centre will continue to focus on downtown locations, the question arises as to whether Frankfurt’s secondary locations or even neighbouring office locations in the Rhine-Main area will benefit from Brexit, too. Banks willing to relocate that are not (initially) able to find any suitable space in the CBD will presumably fall back on neighbouring locations or, to start with, distribute their workforces among different locations. This could have positive effects for secondary locations that, for example, had previously been used for the banks’ back-office activities. Moreover, companies from other industries that are not prepared to meet the costs of more strongly rising rents in the banking district might turn to alternative inner-city locations instead. This should benefit Niederrad, Mertonviertel or the Kaiserlei area, which is part of the neighbouring city of Offenbach. A less likely scenario would involve Brexit having a direct impact on office space in other cities in the Rhine-Main conurbation, because in choosing a location for their back-office operations, banks will also consider its vicinity to the banking district in Frankfurt. Kaiserlei, which is easily accessible from Frankfurt’s city centre in around ten minutes, will likely be acceptable; but travelling times of 40 minutes by public transport to Darmstadt, Mainz or Wiesbaden probably makes these cities a less attractive option.

Consequences for the regional housing market

In contrast to the ample volume of available office space, vacancy rates on Frankfurt’s housing market are currently negligible. The staring situation in both segments of the real estate market in the run-up to Brexit is therefore very different. The city of Frankfurt has been experiencing a major population surge for many years. From 2012 to 2015, the number of residents grew by an average of 15,000 per year. Although data for 2016 are not available yet, they are likely to show a similar

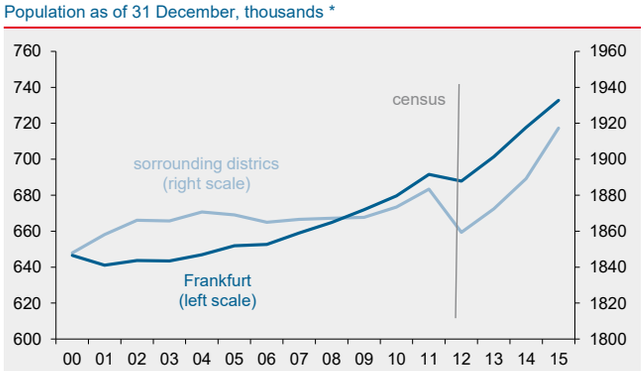
increase. Since 2010, the number of inhabitants will thus have risen by more than 60,000 and is projected to exceed the 750,000 mark this year. The populations of neighbouring districts have increased by a similar magnitude.

Considerably higher new construction activity – but still too little

The influx of new residents from inside and outside Germany has been accompanied by increasing construction activity over the last few years. However, it has not been strong enough to keep up with the additional demand, with the result that the gap between supply and demand on the Frankfurt housing market has widened. There has been a similar development in other German cities, too. This is leading to a significant rise in house prices. Considerable efforts have therefore been made in Frankfurt in recent years to stimulate new construction activity. While an annual average of 2,400 apartments were completed within city limits from 2010 to 2013, this had risen to as much as 4,300 over the following three years (cf. chart on next page). Assuming a household size of less than two persons in a city such as Frankfurt, significantly higher demand forecasts would seem reasonable in view of the most recent increases in population. Brexit newcomers will make this situation more acute in the next couple of years and could – at least in certain inner-city market segments – increase the growth rates of residential property prices and rents.

Increasing populations – even in surrounding districts

Population as of 31 December, thousands *

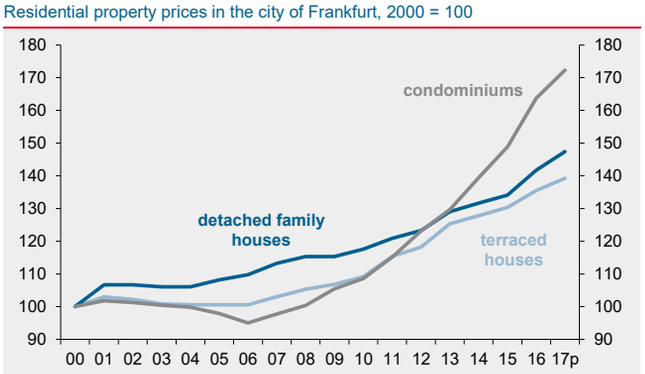


* Data for 2016 not expected to be published until the beginning of 2018

Sources: Federal Statistical Office, Helaba Research

They just keep rising and rising…

Residential property prices in the city of Frankfurt, 2000 = 100



Sources: Scope, Helaba Research

Different approaches to creating new living space

Efforts to mobilise additional building land include urban infill, vertical construction with a range of planned residential high-rises and converting office premises to living space. However, these possibilities are limited and will most likely not be adequate in order to meet the high level of demand for accommodation. Even without the additional effect of thousands of Brexit newcomers, the city and its surrounding districts face a challenge on the housing market. For this reason, there must be an “internal development” by establishing new residential areas in Frankfurt’s periphery on land that has previously been used for agricultural or recreational purposes.

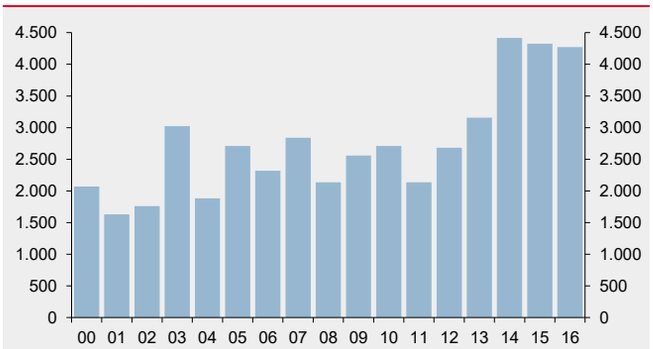
In this regard, the recent political decision to develop a new urban district on a site spanning almost 550 hectares has come at an opportune moment. There is potential here for up to 12,000 apartments accommodating as many as 30,000 residents. However, the example of the Riedberg area shows that this can only be realised in the long term – planning commenced around 25 years ago and development is only now approaching completion. It will probably take seven to ten years before the first completed apartments are expected to be available. Yet, a new residential area of this size (which is significantly larger than even Riedberg) has the calibre to provide substantial relief to the city’s housing market for years to come.

In respect of providing various qualities of living space, however, it is not only down to the city itself to take action but also to its surrounding areas. The average number of completed dwellings in relation to population size over the last three years demonstrates that, within the region, Frankfurt has recently made by far the largest contribution to improving the supply of living space. While Frankfurt had recently managed around six completed dwellings per 1,000 residents, the comparable figure in most neighbouring districts was only two to three (with the positive exception of the

nearby city of Offenbach that boasts a figure of four). 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.

Significant expansion in residential construction activity

Number of housing completions* city of Frankfurt

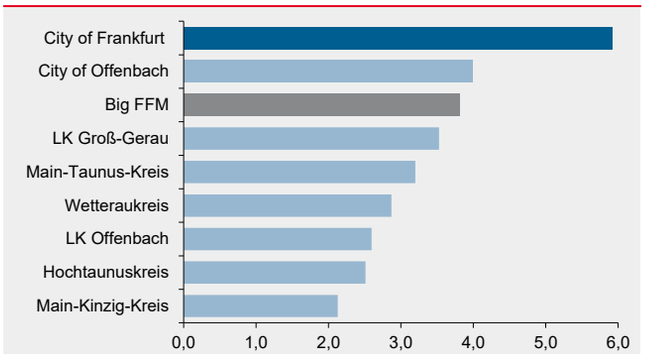


*all buildings including completions in existing properties

Sources: Federal Statistical Office, Helaba Research

Residential construction activity per resident

Completed dwellings, average of 2014-2016 per 1,000 residents*



*in relation to population at end of 2015

Sources: Federal Statistical Office, Helaba Research

Uncomplicated housing market from the perspective of Brexit bankers

The situation in terms of the availability of properties on Frankfurt's housing market, which is not exactly abundant, is unlikely to perturb any Brexit émigrés. The prices of residential properties and rents in London are as much as three times higher than those in Frankfurt. The strong price rises seen over the last few years on the Frankfurt housing market do not even come close to those in the British capital. Due to the significantly higher cost of living there, many people are used to living on the edges of Greater London. In view of the "inexpensive" prices, at least from their perspective, and incomes that are usually above average, even residential areas in the city centre of Frankfurt would be acceptable and affordable for them. Finally, even the supposedly low level of residential construction in the Frankfurt region is relative when compared to that of Greater London. While the Greater London area registered as few as 2.6 completed dwellings per 1,000 residents on average over the last three years, during the same period this figure was as high as 3.8 completions in BIG FFM. Furthermore, the fact that around 2.8 million people live in this region equivalent in size to Greater London, which has 8.5 million inhabitants, suggests that the potential for growth in housing in the Rhine-Main area is considerably higher.

Presumably, many bankers from London will initially commute to Frankfurt for a while before moving their families or settling here permanently. In the short term, this may lead to higher demand for furnished serviced apartments in central inner-city locations. A range of existing and planned residential towers in the premium segment, micro-apartments and boarding houses indicates that the German financial centre is well-positioned in this respect. These new Frankfurt residents will not consider renting an apartment or purchasing a property until they have decided to remain for a longer time. Their elevated purchasing power will enable them to choose between central, inner-city residential locations with very short distances to work or the attractive surrounding areas with acceptable commuting times. Nevertheless, the displacement of lower income groups being priced out of the city's increasingly unaffordable urban districts remains a serious issue.

5.2 Educational establishments

Wide range of international schools

A sound basis in human capital is essential for the innovative strength of a financial centre and thus for it to successfully position itself for the long-term among its global competitors. For this reason, in the process of restructuring that Brexit has triggered, the availability of schools is an important locational criterion. In addition to London bankers' careers, providing for their families is

A total of over 30 educational establishments with an international focus

a key factor. The Frankfurt financial centre region offers a broad range of international educational establishments, which covers all age groups and has visibly grown over the last couple of years. Currently, there are more than 30 private and state schools offering European and international teaching.

Those Brexit bankers who only plan to stay temporarily but still want to move their families here will presumably favour schools that offer international qualifications or that provide a broad range of bilingual teaching options. In this case, the existing bilingual state-run schools would be suitable as they offer dual secondary school diplomas (e.g. the international baccalaureate and the French baccalauréat). Furthermore, private secondary schools would appear to be attractive to bankers accustomed to life in London, in particular. Currently, there are about 10 private international secondary schools in the Frankfurt region with an intake of between 150 and over 2,000 pupils. The share of non-German children is extremely diverse, stretching from 10 % to as much as 80 %. Strong demand for these schools comes from the many families with foreign roots who have already settled here as well as from many German-speaking parents who want their children to receive a fully bilingual education. Moreover, there are two European schools in or near Frankfurt (one supranational and one private), which were primarily established for children whose parents work at institutions of the European Union.

Expansion options for internationally-focused schools

Some internationally-focused schools have already announced expansion plans, which they may be able to complete within the next 12 to 18 months. In some cases, new teaching facilities have recently been opened and there are plans to build further premises. For example, the European School Frankfurt's plans for expansion have progressed so far that, in case the EBA is relocated to Frankfurt, it should easily be able to cope with any additional demand for school places for children of EU employees. Generally speaking, the distances to the schools, some of which are located in Frankfurt's outlying areas, should pose as little an obstacle for many London bankers as paying the private school fees. After all, from a Londoner's perspective this is nothing out of the ordinary.

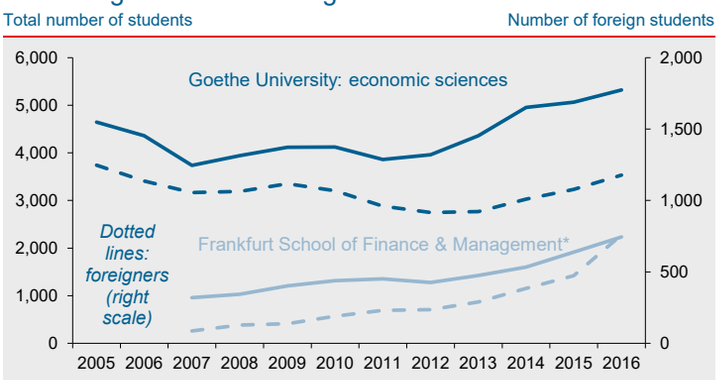
Brexit bankers who want to settle down permanently in Frankfurt will almost certainly take a keen interest in their children being integrated and quickly learning German. Consequently, schools that offer no or only partial bilingual teaching in certain subjects will also be suitable options for them. The discussion surrounding the conditions of residence for EU citizens in the United Kingdom after Brexit day in 2019 will lead to many non-Britons leaving London, in particular. It will therefore be important to offer other languages in addition to English. In this respect, the Frankfurt region scores highly thanks to having schools that are especially geared to individual languages (e.g. French or Japanese).

Even today, demand for educational facilities is high; after all, migration to Frankfurt has recently grown to an annual total of around 15,000 people. In the long run, the number of children is set to grow noticeably every year and, in this regard, there will be a need for a further expansion in the educational infrastructure for children of all ages that include all types of school and goes beyond demand created by Brexit.

Good reputation as an international academic and research location

The Frankfurt region not only has a broad range of educational opportunities in the form of schools to offer but also of high-profile academic teaching and research establishments, which have established strong links to the financial sector. As a result, Frankfurt boasts a large number of highly qualified specialists. The intellectual infrastructure in the German financial centre has expanded steadily over the last couple of years and its international standing has grown – with additional room for improvement.

Increasing numbers of foreign students in Frankfurt



* including guest students;
Sources: Statistical yearbook for Frankfurt, universities, Helaba Research

Growing reputation as an academic and research location

Frankfurt's Goethe University and the Frankfurt School of Finance and Management, which complement one another (cf. also map of city in chapter 3.1), offer an attractive and high-quality range of teaching and research that is located close to the banking district. Frankfurt's reputation as an international location for academic teaching and research, in which intensive contacts are maintained to the financial sector and where English as the language of business is becoming more common, has led to growing interest from students both from within Germany and abroad. In the 2016/2017 winter semester, more than 7,500 students were enrolled in academic programmes at both of Frankfurt's universities – around 60 % more than nine years ago and a quarter of whom are from other countries. In order to advance even further within the European network of finance-related teaching and research, the German financial centre could undoubtedly be more confident in the way it presents its bustling network of intellectual infrastructure. [4] ■

[4] You will find more details about universities in Frankfurt and the surrounding area in our anniversary study. Cf. Helaba Research (June 2016): "Financial Centre of Frankfurt: Making further Headway"

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