

FINANCIAL CENTRE OF FRANKFURT
BREXIT BANKS ARE PACKING THEIR BAGS

Helaba Research





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Editorial

Dear Readers,

The Brexit negotiations are entering a critical phase. It is not yet certain whether an agreement between the United Kingdom and the European Union will ultimately succeed and what it will look like. For this reason, it is not surprising that there are often reports of planned relocations by banks and other financial service providers from London to alternative financial centres within the EU.

Presumably, the time to start packing bags in London will come sooner rather than later. Which financial centre will be the preferred destination? Which banks will be the first to move to the new location? Which nationalities are particularly keen on relocating and how will the relationship between European financial centres change in the process? Finally, and most importantly: What does this mean for Frankfurt as a financial centre?

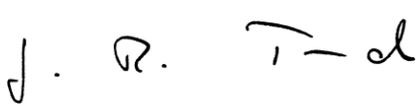
Helaba, as a universal bank in Frankfurt with a strong regional focus, has long been committed to promoting the development of the German financial centre. Since 2006, we have been conducting research on the financial centre of Frankfurt with changing focal topics and are a founding member of the Frankfurt Main Finance initiative. At the latest corporate IRONMAN NightRun in Frankfurt, a Helaba team called "Frankfurteers" literally professed its commitment to the region.

Since the British referendum in mid-2016, we have placed the effects of Brexit on European financial centres at the heart of our financial centre analyses and sketched out our Brexit Map: an illustration to show the relocation of business activities from London to other important banking locations in Europe. From the outset, we had given the German banking centre a good chance of becoming the primary beneficiary of the Brexit-related restructuring process. This is now becoming increasingly evident. The list of credit institutions wishing to relocate their activities from the Thames to the Main is becoming longer and longer. Currently, 25 Brexit banks have opted for Frankfurt – far more than for Paris or other locations.

In recent months there has been a great deal of discussion in Frankfurt about where the predicted Brexit bankers are. Since the beginning of the year, however, more and more banks have been shifting their business activities in concrete terms and, in the meantime, banks have begun to establish or expand their staffing capacities here. From 2019, the Brexit effect should have a clearly positive impact on Frankfurt's banking employment and, ultimately, more than offset on-going consolidation processes in the city. We adhere to our forecast that Brexit will create at least 8,000 financial jobs in Frankfurt over the next few years.

The first Brexit banks are obviously beginning to pack their bags. In some cases, employees will be sent from London to Frankfurt, who will then either move completely or commute back and forth between the two financial centres. However, some banks will also recruit here or hire Germans who have been working abroad for many years to fill the new jobs in Frankfurt. Thanks to its international airport, it is easy to get to Frankfurt – the cosmopolitan nature of the city contributes to the fact that newcomers are happy to unpack their suitcases here.

Yours



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

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Financial Centre of Frankfurt: Brexit Banks are packing their Bags

Brexit is approaching and many **banks are preparing** to relocate their business activities from London to other financial centres. Frankfurt is the favourite in this respect and the list of institutions opting for the German banking centre is getting longer and longer. In some cases, there will be a transfer of jobs **from the River Thames to the River Main**, which will be accompanied by the employees concerned either moving completely or commuting between the two financial centres. In some cases, new employees will be hired here or Germans who have worked with banks abroad for many years will be recruited for the new jobs in Frankfurt. Since the beginning of the year, more and more Brexit banks have been making firm plans to relocate their activities. London's overall view of Frankfurt has changed for the better since the referendum.

To date, **25 Brexit banks** have **chosen the financial centre of Frankfurt** as their preferred destination, including many well-known institutions. Paris comes some way behind, followed by Luxembourg, Dublin and Amsterdam. This is the result of our current Brexit Map – an illustration to show business relocations from London to other important banking centres. Some large corporations have designated Frankfurt as their most important EU hub in the future and, in so doing, have made a fundamental strategic decision in favour of the city, which will be reflected in corresponding staffing levels. The business areas envisaged for relocation include investment banking and broker-dealer business, for example. Additional institutions are still in talks with the local supervisory authorities, so that they have not yet gone public with their decision for a particular location. All in all, the accumulation of Brexit banks in Frankfurt is unparalleled in Europe.

The interest of global financial centre players in joining the expanding cluster in the local community continues to grow. As the leading financial centre in Continental Europe, Frankfurt has long been a magnet for international institutions. Ultimately, the ranking of Europe's major financial centres, which we compiled in mid-2016 on the basis of our core criteria, continues to apply: **London before Frankfurt before Paris**. The only aspect that has meanwhile narrowed is the gap between the relative attractiveness of these locations. Frankfurt has been able to improve its competitive position to a greater extent than Paris. What is more, the German financial centre offers a wealth of **location qualities**, of which the following play a special role **in the context of Brexit**: 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 low office rents and a high quality of life with a wide range of leisure activities in the city and the surrounding countryside.

In view of the relative attractiveness and the sometimes very assertive marketing campaigns of other locations, it is vital that the German financial centre presents itself in a self-confident, concerted manner. Since the referendum, the Hessian state government has accompanied the Brexit process with many activities that are coordinated in the State Chancellery. In order to **strengthen** the position of the financial centre of **Frankfurt in competition for the spoils of Brexit**, there is also a network made up of the various players in the region. In addition, Frankfurt is increasingly receiving verbal backing from the federal government. Now it is time for these words – to promote favourable conditions in Germany's financial centre – to be followed by action. In view of the short time remaining until Brexit, it is important, for instance, to rapidly implement the planned easing of rules on protection against dismissal for highly paid bankers.

The Frankfurt **office market** is in **good shape** shortly before the conclusion of the Brexit negotiations. Vacancy rates have fallen significantly, especially in central locations. Although rents are slowly approaching their previous highs, they are still well below the level of competing financial centres. The additional demand from Brexit newcomers and the expected job growth in other sectors should not lead to bottlenecks thanks to a number of project developments. By contrast, the **housing market remains under pressure**. This will pose fewer difficulties for high-income Brexit newcomers than for lower-income sections of the population. The increase in new construction activity in the city will probably not be sufficient to cope with the expected population growth. The shortage of housing can therefore only be overcome in collaboration with surrounding areas.

Brexit banks in Frankfurt come from ten countries. Most of them already have a branch office in the city and there are also some subsidiaries. Some institutions are, as it were, domiciled in Frankfurt several times, namely with different legal forms for certain business areas. In addition, there are some banks that now want to settle in Frankfurt for the first time, as well as some that are not considered traditional banks in Germany and are only active in investment banking, for example. Together, **Frankfurt's foreign Brexit banks** had an estimated 2,500 employees here at the end of 2017. As part of their Brexit-related adjustments, they are expected to almost double this number **by the end of 2020** and hire around **2,000 additional bank employees** in Frankfurt. The list of institutions with a presence in Frankfurt is likely to grow further.

As early as our 2016 study, we had issued a forecast on the restructuring process in the framework of European financial centres. This rough estimate, which is predicated on the conclusion of an agreement in the Brexit negotiations, continues to apply: thanks to its status as a favourite, **Frankfurt** should attract around half of jobs created at other financial centres **as a result of Brexit**. This creation and expansion of at least **8,000 financial sector jobs** in the city, which will take some years, got underway this summer. At the same time, increased digitalisation and regulatory requirements are adding to the workload of credit institutions and supervisory authorities. However, consolidation in the German banking sector is also likely to continue next year.

By the **end of 2020**, the Brexit effect should have a noticeably positive impact on employment here and should more than make up for job cuts as a result of consolidation. Within this forecast period, we expect Brexit-related growth of around 4,000 bankers in Frankfurt, more than half of whom are likely to be hired by foreign banks. After deducting jobs that will be eliminated as a result of consolidation, this suggests a total of **65,000 bank employees** in the city. Compared with the latest available data of 63,200 employees at the end of 2017, this represents an increase of around 3 % or **a rise in employment of almost 1,800 bankers**. In the medium term, Brexit banks are expected to readjust their capacities and to further increase their staffing levels in Frankfurt. In this respect, a realignment of business policies within the changed structure of financial centres will probably play just as much a role as regulatory arbitrage. The impetus for this should come, at the latest, when the transition phase is over at the end of 2020 and the practical terms of Brexit finally become clear.

Should there be a no-deal between the United Kingdom and the EU, instead of the compromise on which we have based our forecasts, job creation in other European financial centres would be even greater. Frankfurt, as the preferred destination for banks to relocate their activities to, would then experience much stronger employment growth – representing both an opportunity and a challenge at the same time.

1 German banking centre in prominent position

1.1 The Brexit Map for banks: Frankfurt in the lead

Continued uncertainties – agreement forms the baseline scenario

Half a year before the official withdrawal of the United Kingdom from the European Union, many things are still unclear. Will London and the EU states have agreed on all the terms of divorce by 29 March 2019 that will allow for a transition period of almost two years in which to regulate their future relationship? This is by no means certain. In our baseline scenario, we at Helaba assume that an agreement will ultimately be reached. Fear of a no-deal scenario should encourage a willingness to compromise on both sides of the Channel. In terms of content, the solution is likely to be based on the British proposal of introducing a free-trade zone for goods, but not for services. After Brexit, goods could thus continue to be traded free of import duties and according to uniform standards. There would be restrictions on (financial) services, but this should not jeopardise London's role as Europe's leading financial centre, however.

Nevertheless, the United Kingdom is unlikely to retain EU passporting rights in the future and thus free access to markets for London-based banks. The aim of this study is to examine how this will change the structure of European financial centres and, in particular, employment in the German banking centre.

Brexit timeline



Source: Helaba Research

Helaba has been conducting research on the financial centre of Frankfurt for twelve years, during which time it has dealt with a number of different issues, with a focus on Brexit since 2016. In response to the referendum in June 2016, we published the "Financial Centre Focus: Brexit – Let's go Frankfurt", in which we roughly outlined our Brexit Map (see page 10): an illustration to show the relocation of business activities from London to other important banking locations in Europe.

Development of our Brexit Map

From the very beginning, we had given the German banking centre a good chance of becoming the primary beneficiary of the Brexit-related restructuring process. This was justified by a comparative location assessment, according to which Frankfurt is the leading financial centre in Continental Europe. Its outstanding position in the race for Brexit bankers is proving increasingly true as more and more banks announce their preference to relocate to the city. In our 2017 study entitled "Financial Centre of Frankfurt: In Pole Position for Brexit Bankers" we integrated the decisions of individual institutions for different locations on the map. We have now expanded on this detailed list and also present some characteristics of those Brexit banks planning to move activities to Frankfurt – including a rough estimate of their current and future staffing levels (see chapter 2.1).

Definition of Brexit banks

Brexit banks are institutions that have to adapt their European business structure due to the impending loss of the EU passport in the United Kingdom and require a corresponding approval in another EU member state (direct Brexit banks). Besides, there are credit institutions that simply want to open a new office in order to be part of the growing clusters at these locations (indirect Brexit banks) due to the increased attractiveness of financial centres such as Frankfurt. Moreover, our Brexit Map lists institutions that do not require a banking licence in Germany, but nevertheless carry out bank-like or bank-related activities (e.g. M&A advisory services). Other financial service providers, such as fund managers, rating agencies or even auditors and lawyers, are deliberately not included here. In this way, the definition of banks corresponds to the definition on which we have based our employment forecast for years and which coincides with the aggregate of Deutsche Bundesbank for Frankfurt's banking employment (see chapter 3.2).

How has the Brexit process meanwhile developed at the banks? Until the summer of last year, only a few financial institutions had initially made their relocation plans public. This changed with the start of the – albeit sluggish – exit negotiations between the European Union and the United Kingdom in June 2017. Since then, an increasing number of institutions have been more aggressive in pursuing relocation plans to alternative locations, although this naturally remains a sensitive issue. But time is running out. Internally, the banks are working on the basis of various scenarios in terms of how they want to react, depending on the outcome of the negotiations, so that they will be in a position to ensure the same level of service for their European customers.

Legal capacity for all eventualities in March 2019

In principle, a transition phase will give banks a little more time for the ultimately inevitable restructuring process that will accompany the process of obtaining regulatory approval and the establishment or expansion of offices at a new location. However, since the transition agreement will only become legally binding once the entire Brexit deal has been concluded, there is no planning certainty. Institutions must be prepared for March 2019 and, in addition to London, must at least have the legal capacity in place to conduct business at another location in the EU. Perhaps they will then delay the actual relocation of their business during the transition phase until the end of 2020 – provided that supervisory authorities are willing to accept this at all.

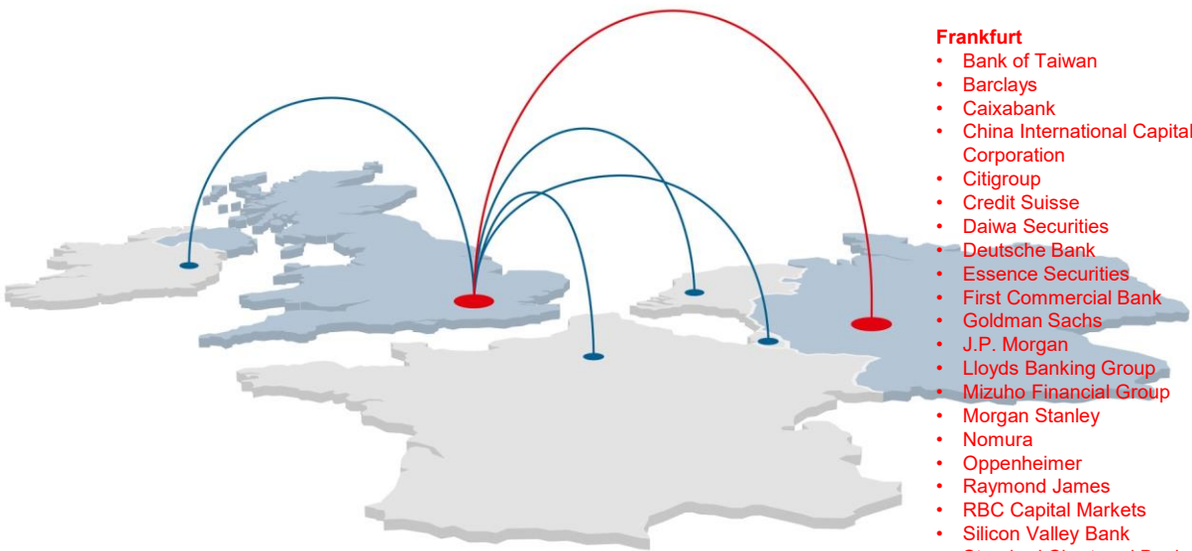
Stronger diversification and accompanied concentration

In general, there are indications of a stronger regional diversification of financial activities in Europe after Brexit. Using a multi-centre approach, some credit institutions are seeking proximity to their customers in the various European regions, while their London office will be retained with modified responsibilities and will continue to be important. This decentralised business strategy is likely to be pursued primarily by large banks. For reasons of efficiency, however, it can ultimately be assumed that many institutions will focus to a certain extent on a central financial centre within the EU, as the costs of Brexit are high enough anyway. As befits its role as a leading financial centre in Continental Europe, Frankfurt is frequently preferred in this regard.

The banking centre of Frankfurt a clear favourite

To date, 25 Brexit banks have chosen Frankfurt as a financial centre, including many well-known institutions. In addition, there are some who are still in confidential discussions with or are awaiting the conclusion of approval procedures by Frankfurt-based supervisory authorities at a German or European level and have therefore not yet gone public with their decision in favour of a particular location. Overall, this represents an accumulation of Brexit banks with a focus on Frankfurt that is unparalleled in Europe (see chapter 2.1 for details).

Brexit Map: relocation decisions by banks*



Frankfurt
- Bank of Taiwan
- Barclays
- Caixabank
- China International Capital Corporation
- Citigroup
- Credit Suisse
- Daiwa Securities
- Deutsche Bank
- Essence Securities
- First Commercial Bank
- Goldman Sachs
- J.P. Morgan
- Lloyds Banking Group
- Mizuho Financial Group
- Morgan Stanley
- Nomura
- Oppenheimer
- Raymond James
- RBC Capital Markets
- Silicon Valley Bank
- Standard Chartered Bank
- Sumitomo Mitsui
- UBS
- VTB
- Woori Bank

Dublin
- Bank of America
- Barclays
- Citigroup
- J.P. Morgan
- Morgan Stanley
- TD Securities

Paris
- Bank of America
- Citigroup
- Credit Suisse
- Goldman Sachs
- HSBC
- J.P. Morgan
- Morgan Stanley
- Perella Weinberg
- French banks…

Amsterdam
- Credit Suisse
- Mitsubishi UFJ Financial Group
- Royal Bank of Scotland

Luxembourg
- Bank of Singapur
- China Everbright
- Citigroup
- J.P. Morgan
- Julius Baer
- Northern Trust

* expansion of existing or establishment of new offices (in alphabetical order)
Sources: Press, Helaba Research

Paris lags behind Frankfurt for banks

Paris is some way behind Frankfurt in terms of its attractiveness to this financial centre players, which in turn corresponds to the ranking of financial centres (see chapter 1.2). These are followed by Luxembourg, Dublin and finally Amsterdam. In addition, there are occasional announcements of other locations for business relocations by banks, but the five shown in our Brexit Map are the heavyweights. While Frankfurt is the undisputed frontrunner for credit institutions, insurance companies and investment companies usually favour Dublin or Luxembourg.

In addition to the absolute order of locations in terms of their popularity for Brexit banks, the pace of announcements is also interesting, which is evident in comparison to our 2017 study. Ten banks have been added to Frankfurt's tally since last summer. Paris has also been successful thanks to mounting a charm offensive (seven more foreign banks). Incidentally, French banks will probably repatriate the majority of their London-based activities – in a similar way to German banks. So far, however, there have been hardly any firm reports about this. At the same time, several major French banks are planning to expand in Germany, which will lead to more competition and greater international diversification here.

Frankfurt the most important EU hub for some banks

Some of the Brexit banks in Frankfurt have designated the city as their most important future EU hub, either in the form of an umbrella company for their European business or as the headquarters of a central business division. This is a fundamental strategic decision by large corporations in favour of Frankfurt, which will be reflected in corresponding adjustments to staffing levels. The business areas envisaged include, for example, investment banking and broker-dealer activities. In addition, the Brexit effect in Frankfurt is already having an impact on financial centre-related service providers (e.g. rating agencies, law firms and consultancies) who want to prepare for the anticipated higher demand with a stronger presence or new offices.

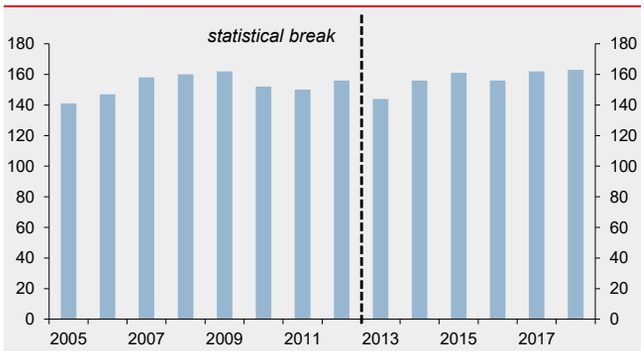
1.2 Relative attractiveness: London before Frankfurt before Paris

Frankfurt with strong international appeal

The Brexit process has generated considerably greater attention for Frankfurt in the financial world. There is a growing interest among international financial centre players to be part of the expanding cluster of Frankfurt's banking community. In any case, the German financial centre, with its prominent position in the framework of European financial centres, has long attracted international players. This has been reflected for years in the considerable number of foreign banks in the city. By mid-2018, Frankfurt played host to more than 160 headquarters of foreign banks and 30 representative offices, flanked by central banks and industry representatives at national and European level.

Frankfurt attractive for multitude of foreign banks

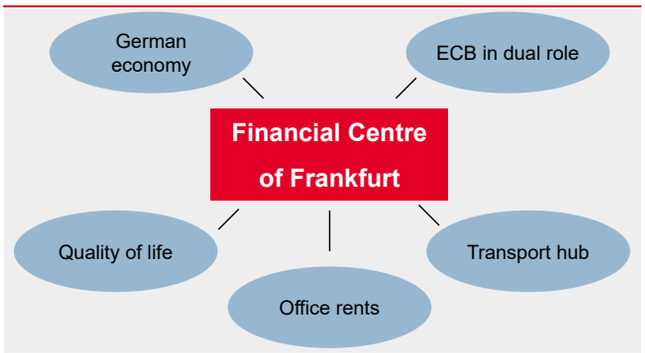
Number of foreign banks with a head office at year end*



* 2018: as of 30 June;
Sources: Deutsche Bundesbank, Helaba Research

Location qualities relevant to Brexit

Selected qualities of the German financial centre



Source: Helaba Research

In addition to the active community, the springboard function of the local financial centre is particularly important for many foreign banks. They can conduct their business in a number of neighbouring countries from their Frankfurt hub, which provides ideal networking opportunities. This advantage sets the German financial centre apart from its competitors. As previous Helaba surveys have shown, many foreign banks are specifically based in Germany's financial centre in order to conduct business in neighbouring countries.[1] This is a key factor, especially in the context of Brexit, since the primary issue will be relocating European activities from London to an alternative location in order to be able to resume them seamlessly after the loss of the EU passport in the United Kingdom.

Frankfurt's appeal as the number 2 financial centre

The German financial centre boasts a wealth of location qualities. With regard to Brexit, the stability and strength of the German economy and the presence of the European Central Bank (ECB) as a central player in the world of finance are of particular importance. In addition, the relatively low office rents compared to other countries and the abundant range of leisure facilities in the region deserve special mention. Our ranking of Europe's major financial centres, which we compiled in 2016 on the basis of core criteria using many indicators, continues to apply in principle: London before Frankfurt before Paris.[2]

Frankfurt's competitive position improves – more than Paris

It is therefore no coincidence that Frankfurt is the favourite for so many Brexit banks. However, due to various developments, the relative assessment of locations meanwhile requires minor adjustments. The gaps between Europe's three major financial centres have narrowed, but Frankfurt has improved its competitive position more than Paris.

[1] Cf. Helaba Research (March 2015): "Financial Centre of Frankfurt: Upwards with China" or (January 2011) "Financial Centre Frankfurt: A Magnet for Foreign Banks"

[2] Cf. Helaba Research (June 2016): „Financial Centre Frankfurt: Making further headway"

What has changed in Frankfurt's relative competitive position?

Frankfurt's position relative to London improves

The damage to London's image can no longer be disputed. This is benefitting alternative locations and Frankfurt, in particular, as the number 2 in Europe. The City is likely to retain its leading position in the framework of European financial centres. However, the persistently high level of uncertainty about future conditions in the United Kingdom is leading to a reluctance on the part of many players to make strategic business decisions. Companies operating there are adjusting their business models with corresponding effects on investments and personnel. New companies with an international focus, not only from the financial sector, are sceptical and often prefer to open their offices at a different location in order to avoid exposure to years of uncertainty as a result of Brexit.

The fact that the merger between Deutsche Börse and the London Stock Exchange did not take place can be considered an advantage for Frankfurt. Instead of the threat of "annexation" by London in 2016/2017, Deutsche Börse has been able to pursue its own strategy. Eurex Clearing's partnership programme with major banks has also begun to have a positive impact on the German financial centre. Since its launch in October 2017, it has led to more and more euro-denominated interest rate derivatives activities migrating from the River Thames to the River Main. Although London dominates this market segment, Eurex's volume of interest rate swaps denominated in euro had risen from less than EUR 2 trillion last autumn to over EUR 9 trillion by August 2018 – meanwhile accounting for a market share of 10 %. Frankfurt is catching up here and is well on the way to establishing a stronger position.

Financial sector authorities now also a core criterion

In light of increased regulatory and supervisory requirements, financial sector authorities meanwhile also form part of the core criteria of our comparative location assessment. This is because the presence of central banks and supervisory bodies in a financial centre attracts many players and is therefore a decisive factor in its international positioning.

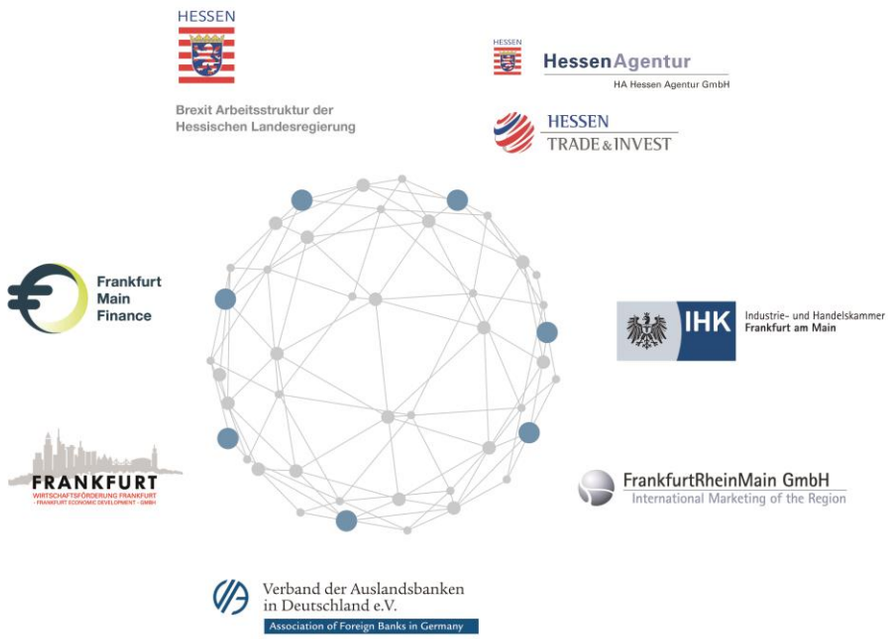
From the perspective of competition, the fact that the European Banking Authority (EBA) is being moved to Paris as a result of Brexit is a disadvantage for Frankfurt. The EBA would have been an asset to the city, whose profile as the capital of European supervision would thereby have been further enhanced. In the future, should the ECB's supervisory function be merged with the EBA, this would provide a boost for Paris in the competition between international financial centres. After all, in the past Germany has repeatedly pointed out the potential conflict of interest that exists in the ECB due to its dual function as a body with simultaneous responsibility for monetary policy and financial supervision. If Paris was able to seize on this regulatory argument and successfully get its way, it would be able to expand its position. Currently, Frankfurt greatly benefits as a location from the fact that the ECB is active here in its pan-European dual function. As a supranational supervisory body, it is involved in a number of approval procedures related to Brexit.

In terms of approval procedures for banks, the German financial centre is in a better position than its French counterpart: unlike Paris, where market entry is probably complicated sometimes, the supervisory authorities in Germany are held in high regard by the financial world. Since its workshop at the beginning of 2017, the German Federal Financial Supervisory Authority (BaFin) has intensified its dialogue with London's banks and is processing the numerous applications for licenses in a pragmatic way while maintaining a certain degree of flexibility. However, BaFin has made it clear that it will not permit pure letterbox companies, but rather has clear expectations, e.g. of staffing levels, appropriate risk management and the necessary IT systems that institutions must have in place.

State of Hesse very active for financial centre of Frankfurt

Since the referendum, the Hessian state government has accompanied the Brexit process with many activities that are coordinated in the State Chancellery. Three ministries (Europe, Economics and Finance) work closely together on this with different priorities.

Hessian Brexit Network



Sources: Hessian State Chancellery, Helaba Research

Brexit activities in Frankfurt's financial centre region

In order to strengthen the competitive position of Frankfurt's financial centre as a result of Brexit, there is also a well-coordinated network of the following partners (see illustration): The Hessian state government, Frankfurt Main Finance, Frankfurt Economic Development GmbH (Wirtschaftsförderung Frankfurt GmbH), the Association of Foreign Banks in Germany (Verband der Auslandsbanken in Deutschland e.V.), FrankfurtRheinMain GmbH, the Frankfurt am Main Chamber of Industry and Commerce (Industrie- und Handelskammer Frankfurt am Main), HA Hessen Agentur GmbH and Hessen Trade & Invest. Representatives of this "Brexit Task Force" hold a telephone conference at least once a week. In the scope of their cooperation, for example, a number of broad-based delegations have travelled to London. In the spring of 2018, the State of Hesse welcomed high-ranking executives from Brexit banks who want to settle in Frankfurt. Never before have the various players in Frankfurt's financial centre region demonstrated such a concerted commitment.

Active policies to promote the location necessary on a federal level

The German government is increasingly providing verbal support for the local financial centre. Now it is time for these words – to promote favourable conditions in Germany's financial centre – to be followed by action. In view of the short time remaining until Brexit, it is important, for instance, to rapidly implement the planned easing of rules on protection against dismissal for highly paid bankers. As Europe's number 2 financial centre, Frankfurt has a lot to offer. But competitors like France are advertising their own location with great enthusiasm and success. This makes it all the more important for Germany as a financial centre to act in a united and determined manner.

It is also important to finally put aside the certain German mentality of "making oneself small" and to pursue a proactive marketing approach that is commensurate with Frankfurt's diverse qualities. This is because the choice of location by international players is always the result of weighing up business policy considerations and the fundamental advantages of a financial centre, which must have sufficient public visibility.

2 Brexit banks prepare to move to Frankfurt

2.1 Details about Frankfurt's diverse Brexit banks

Majority of Brexit banks with prominent location in Frankfurt's financial district

The German financial centre is already an important location in the European strategy of globally operating banks. Of the 25 Brexit banks that have so far announced business relocations to the German financial capital (see chapter 1.1), the majority are already represented here and are an integral part of the Frankfurt community. Many of these institutions have already had offices in Frankfurt's banking district for a long time and some of them are planning to move to another tower as part of their expansion strategies. The first options for office space are being converted into rental contracts. Together with new players in the financial centre, this will generate additional demand on Frankfurt's office market (see chapter 2.2).

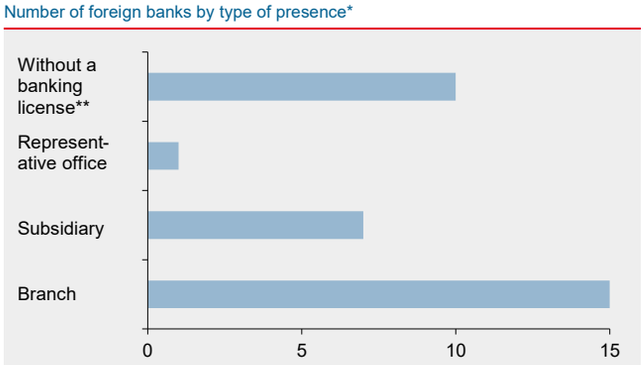
Brexit banks with a focus on Frankfurt are in close contact with the local supervisory authorities. After all, they only have a limited period of time remaining in which to prepare themselves for business here (spring 2019 or the end of 2020). Depending on the type of presence they currently maintain, they may first have to apply for a banking licence from BaFin, a process that can take up to one year. It would then be possible to apply for an EU passport, for which a period of around six months is required in Germany. In the meantime, the first approvals have probably been granted by the German supervisory authority.

Numerous branches as well as some subsidiaries in Frankfurt

The fact that a large number of Brexit banks are already based in Frankfurt facilitates the regulatory approval process. Most already have a branch office in Frankfurt and there are also some subsidiaries. Some institutions are, as it were, domiciled in Frankfurt several times, namely with different legal forms for certain business areas. Furthermore, in view of the growing international appeal of the German financial centre, there are some banks that now want to settle in Frankfurt for the first time (indirect Brexit banks). Among the 25 Brexit banks in Frankfurt, there are also some that are not considered classic banks in Germany and are only active in investment banking, for example.

Brexit banks focused on Frankfurt: already present …

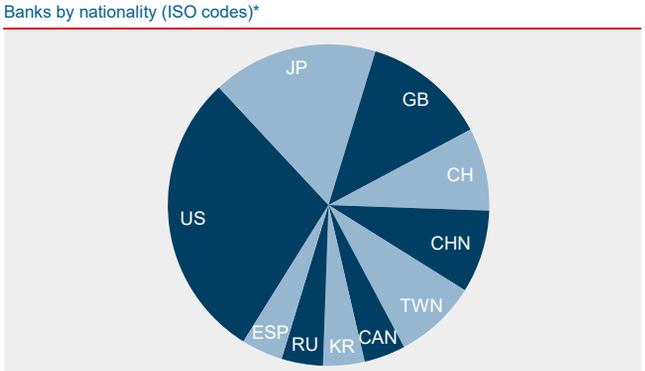
Number of foreign banks by type of presence*



*incl. multiple types **not represented in Germany until 2018 or due to business focus;
Sources: Deutsche Bundesbank, Helaba Research

… and from a variety of countries of origin

Banks by nationality (ISO codes)*



*selection as in left-hand chart
Sources: Deutsche Bundesbank, Institutions, Helaba Research

These banks come from ten countries, several of them from the United States, Japan and the United Kingdom. Two institutions each come from Switzerland, China and Taiwan; one each from Canada, Korea, Russia and Spain. A major German bank has also clearly committed itself to its Brexit plans by initiating the relocation of its global booking hub from London to Frankfurt at the beginning of the year. Ultimately, the stronger presence of banks from other countries should also result in foreign companies outside the financial sector increasingly conducting business activities in Germany or even opening a new branch.

Since the beginning of the year, planned business relocations from the River Thames to the River Main have been taking shape at an increasing number of banks. This is reflected in job advertise-

ments and some newly relocated employees as well as the first opening parties. Customers have also been informed of impending business relocations and places have been block booked at international schools. With the official Brexit day approaching ever nearer, specific preparations by banks have thus entered a critical phase and this should soon have an impact on Frankfurt's financial sector labour market (see chapter 3).

The Brexit effect of foreign banks in Frankfurt

2,500 employees at Frankfurt's Brexit banks of foreign origin …

Together, Brexit banks of foreign origin in Frankfurt had an estimated 2,500 employees here at the end of 2017. The intriguing question, of course, is: How many additional jobs will they create in the German financial centre as part of their Brexit-related restructuring? Individual information on this is rare; the uncertainty about the precise circumstances and conditions of the British EU withdrawal is simply still too great. Ultimately, the exact number of employees will also depend on regulatory requirements. As such, the institutions make internal calculations based on various scenarios and only make their baseline scenario public, at best. On the basis of these individual reports, which we have been monitoring closely since the Brexit referendum, we have provided an aggregated rough estimate:

Number of employees at Frankfurt's Brexit banks*



* aggregated estimate until end of 2020, only institutions of non-German origin; source: Helaba Research

… and an additional 2,000 bankers by the end of 2020

The aforementioned 24 foreign banks looking to relocate in Frankfurt are expected to almost double their local staff by the end of 2020 and provide for around 2,000 additional bankers in the city. The list of institutions is likely to grow further still. In some cases, employees will be sent from the Thames to the Main, who will then either move completely or commute back and forth between the two financial centres. However, a certain degree of recruitment will also take place here, the extent of which is currently difficult to quantify. This will depend on how many London bankers are prepared to relocate and, generally speaking, the willingness to do so appears to be limited.

Frankfurt with a different character than London

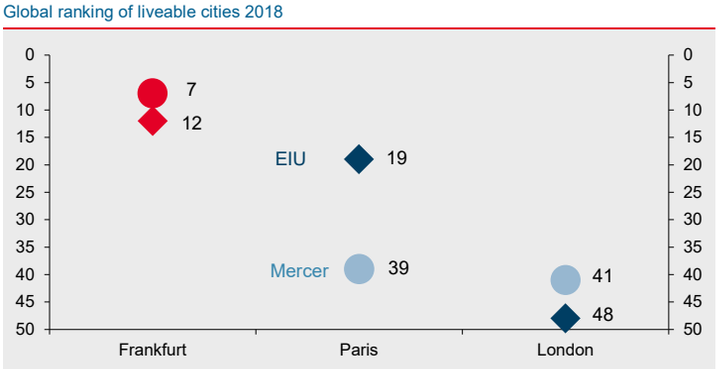
But London's view of Frankfurt has changed for the better since the referendum. The cosmopolitan character of the city on the River Main with its numerous location qualities is gaining more and more recognition in the financial world, and the range of English-language cultural amenities and infrastructure has been growing rapidly for years.[3] Old preconceived notions about the city being provincial and English not getting you very far have meanwhile become a thing of the past. Nevertheless, Frankfurt, which is considered to be somewhat staid and which skilfully combines tradition and modernity, simply has a different character from the hip City of London. In terms of quality of life, Frankfurt's reputation does not do it justice, which should be obvious to any open-minded person. This has also been demonstrated time and again in studies by the global personnel con-

[3] Details about Frankfurt's cosmopolitan character cf. Helaba Research (September 2017): "Financial Centre of Frankfurt: In Pole Position for Brexit Bankers"

sultancy Mercer and the UK-based Economist Intelligence Unit (EIU). In both current rankings of globally liveable cities, the German financial centre continues to be well ahead of its French and British counterparts.

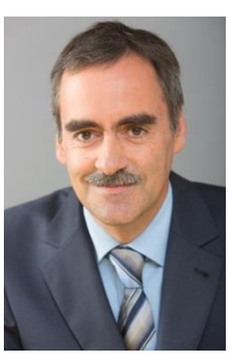
Quality of life by far the highest in Frankfurt

Global ranking of liveable cities 2018



Sources: Mercer, EIU, Helaba Research

At the end of the day, therefore, financial incentives and other criteria such as the provision of school places should be the decisive factors in terms of a person's willingness to relocate. In addition, Germans who have worked for banks abroad for many years are also being enticed away by competitors for new jobs in Frankfurt. Personal reasons for returning to Germany are as important as career opportunities. Many bankers from Germany and abroad are also attracted by the prospect of being able to contribute to developing something new in a thriving Frankfurt. The effects of Brexit-induced restructuring on the labour market in the German banking centre are described in chapter 3.2.



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2.2 A booming regional property market

Consequences for Frankfurt's office market

Shortly before the conclusion of the Brexit negotiations, the Frankfurt office market is in good shape – better than we had expected a year ago. Average office rents have been rising for years, but are still below their historic highs at the turn of the millennium. In a comparison of the leading German office locations, rent levels in Frankfurt are substantially higher. Compared to other European financial centres, however, office space here does not seem as expensive: rents are considerably lower than in London and noticeably below those in Paris and Dublin – a competitive advantage in relation to other financial centres.

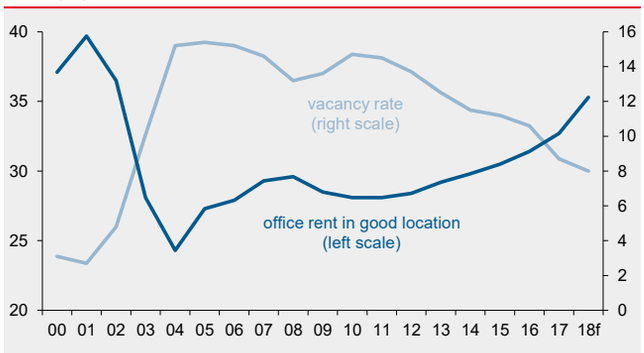
In fact, there is still enough available office space in Frankfurt so that the influx of several thousand additional bank employees should be manageable without any problems. However, the vacancy rate has already declined from a peak of over 15 % to a current level of only around 8 % (and thus by more than 600,000 sqm). The on-going employment boom has contributed to this: Between 2007 and 2017, the number of employees subject to social security contributions in the city increased by more than 92,000. It is estimated that almost half of these are office jobs.

The conversion of office space into residential space, in particular, has also played an important role in reducing the vacancy rate. Over the past few years, more than 400,000 sqm has been converted in this way. Nevertheless, Frankfurt has the highest vacancy rate in Germany, while other top locations already have a shortage of space of 2 % to 4 %. With 12.6 million sqm of office space in Frankfurt, just under 1 million sqm are currently vacant. Less abundant is the availability of modern office space in central locations preferred by the financial sector. After all, only about half of vacant office space boasts up-to-date equipment and less than a third of vacant space is situated

in inner-city locations, including the banking district and Westend. Taking both quality characteristics into account, vacant office space relevant for Brexit banks probably amounts to as little as around 200,000 sqm.

Rising office rents, strong decline in vacancy rate

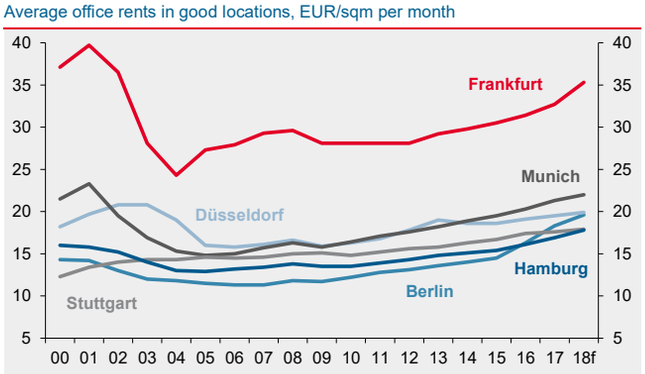
EUR/sqm per month %



Sources: Scope, Helaba Research

Frankfurt office rents approaching previous highs

Average office rents in good locations, EUR/sqm per month



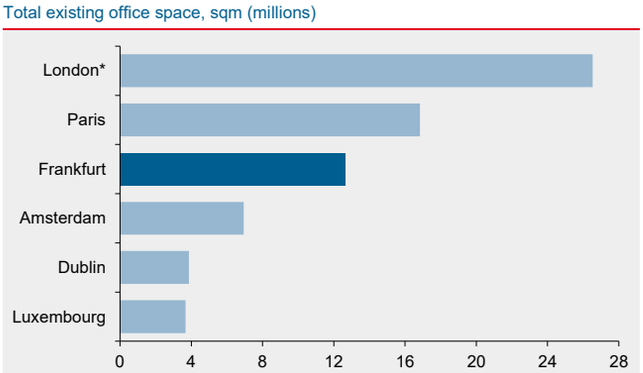
Sources: Scope, Helaba Research

The first contracts have been signed

If several banks are looking for larger amounts of space in this segment of the market, not all of them will find their preferred offices in the short term. However, some Brexit banks are not dependent on renting new space, as they can accommodate additional employees at their current locations. In many cases, staffing levels are initially limited and only increased over time. In this regard, the availability of co-working space in the city, which is expanding rapidly, could provide the necessary flexibility. Since only a few months remain until the United Kingdom leaves the European Union, it comes as no surprise that the first new lettings have been signed in connection with Brexit. In particular, this includes Goldman Sachs renting space in the Marienturm, but excludes larger contracts signed in recent months (such as FAZ, KfW or Finanzagentur).

Frankfurt's office market: The golden mean?

Total existing office space, sqm (millions)

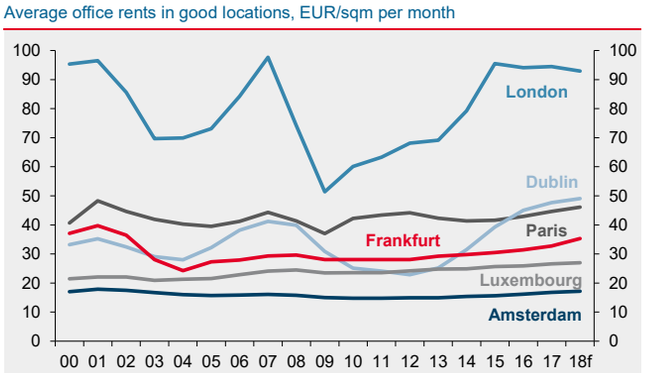


*Central London

Sources: Scope, Helaba Research

Frankfurt's office rents in an international comparison

Average office rents in good locations, EUR/sqm per month



Sources: Scope, Helaba Research

Demand for space not limited to banks

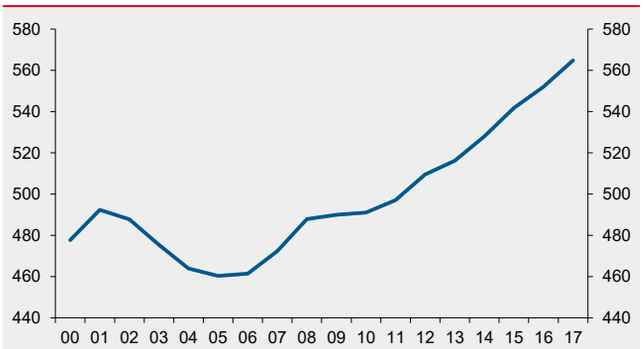
We estimate that the Brexit will increase the number of office workers in Frankfurt by 8,000, in a process lasting several years. When factoring the ongoing consolidation of major Frankfurt-based banks into the equation, the net effect is lower. Assuming an average office space of about 20 sqm per capita, we anticipate additional Brexit-related demand of approximately 100,000 sqm in total for the next few years. Theoretically, it could be easily met using the currently available vacant space.

However, over the next few years numerous jobs will also be created in other sectors that are relevant to the regional office market. Therefore, the financial sector will only generate part of the future demand for space. Although in terms of rental turnover the sector has recently outpaced other service sectors, such as consulting firms or co-working providers, overall demand for office space in Frankfurt is broadly diversified. In fact, a closer look at employment data shows that the impetus in recent years has not come from the financial sector at all. Among the services relevant to the office market, scientific, technical and other business services, including real estate man-

agement as well as information and communication, stand out (see chart at top right). In the coming years, the number of office workers will therefore continue to grow much faster than the effect that Brexit alone can be expected to have on banking employment. This is likely to result in a correspondingly stronger demand for space.

Rising demand for offices due to higher employment

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

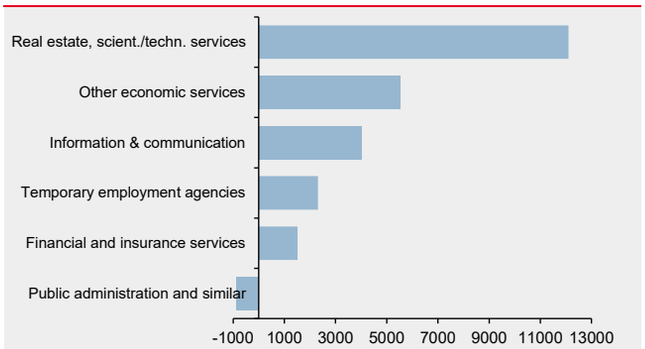


*subject to social insurance contributions

Sources: Federal Employment Agency, Helaba Research

Impulses from the service sector

Employees in Frankfurt, change 2013-2017*



* subject to social insurance contributions; sectors particularly relevant to the office market, as of 30 June

Sources: Federal Employment Agency, Helaba Research

Well-stocked pipeline to counteract shortfalls

A number of project developments is the main reason why there will probably be no real bottlenecks on the Frankfurt office market. Over the next few years, they will ensure a growing supply of space, especially in the sought-after central locations. Next year, for example, when the Brexit effect takes hold more strongly, five larger projects with a total office space of around 140,000 sqm will be completed (most of them in a central location). However, there are already significant preleases here. It will probably be another three years before the completion of "Four Frankfurt", the largest project on the former Deutsche Bank site with around 100,000 sqm of office space (see overview below).

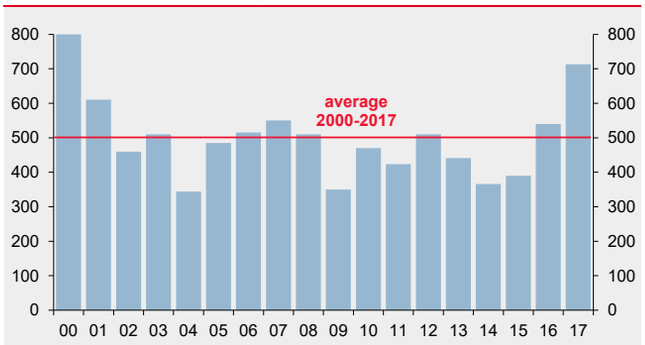
Selected office projects in Frankfurt

Project	office space, sqm	completion
Marienturm	44,500	2019
Omniturm	44,000	2019
Hafenbogen	14,000	2019
Junghof Plaza	21,000	2019
The Docks	18,000	2019
Grand Central	45,000	2020
Global Tower	33,000	2020
ONE	43,000	2021
99 West	24,000	2021
Four Frankfurt	100,000	2021/2022

Sources: press reports, project developers, Helaba Research

Highest office space take-up since 2000

Total volume marketed* (including owner-occupier transactions), 1.000 sqm



*Frankfurt including Eschborn and Kaiserlei

Sources: gif, Helaba Research

Rents will approach previous all-time highs

The Brexit will contribute to a further reduction in the vacancy rate in Frankfurt. In view of the well-stocked development pipeline, however, we do not expect it to reach the very low levels of other top German locations. Thanks to the Brexit effect, office rents in good locations should continue to rise strongly in the coming year and thus approach their previous all-time highs at the beginning of the millennium. However, Frankfurt remains an affordable office location in comparison with internationally competing financial centres. Rental turnover should remain at an above-average level in a long-term comparison (not only because of Brexit). Positive take-up figures in the first half of 2018 confirm this trend.

Impulses for secondary locations as well

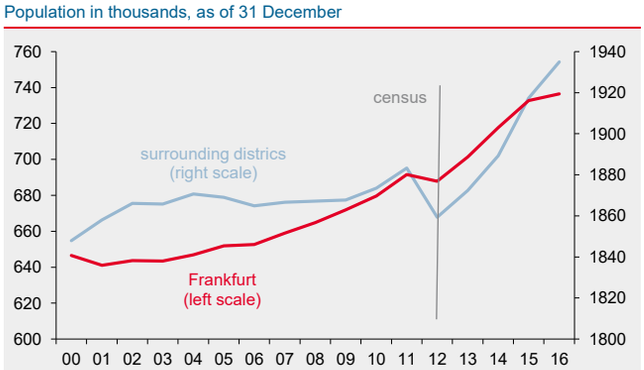
Although old and new banks in the financial centre will continue to focus their attention on central locations, we expect positive effects for neighbouring office locations as well. Banks wishing to relocate to the city, but who cannot (initially) find any suitable space in the centre, will move to neighbouring districts. This should benefit secondary locations that have hitherto been used for banks' back offices. Thanks to its easily accessible location about ten minutes from the city centre, this should apply to Kaiserlei, which is part of the city of Offenbach. In addition, companies from other sectors that are not prepared to pay the ever-increasing rents in central locations could switch to cheaper inner-city alternatives. These include the Lyoner Quartier (formerly Bürostadt Niederrad) and the Mertonviertel as well as the office district in Eschborn outside Frankfurt's city limits.

Regional housing market still under pressure

The situation on Frankfurt's housing market has changed little since the last financial centre study a year ago. In contrast to office space, which is still abundantly available, there is practically no vacant space in the residential segment. The population of the city has grown: while the State Statistical Office recorded an average annual increase of around 15,000 inhabitants for the city from 2013 to 2015, an increase of only 3,700 was reported for 2016. In the surrounding districts, the increase last year, at 17,600, was only slightly lower than in the previous three-year period.

Population growth in city and its environs

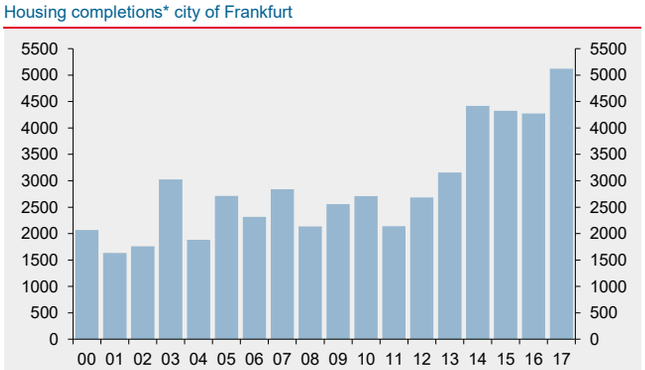
Population in thousands, as of 31 December



Sources: Federal Statistical Office, Helaba Research

Record number of housing completions

Housing completions* city of Frankfurt



*all buildings including completions in existing properties

Sources: Hessian State Statistical Office, Helaba Research

Considerably higher new construction activity – but still too little

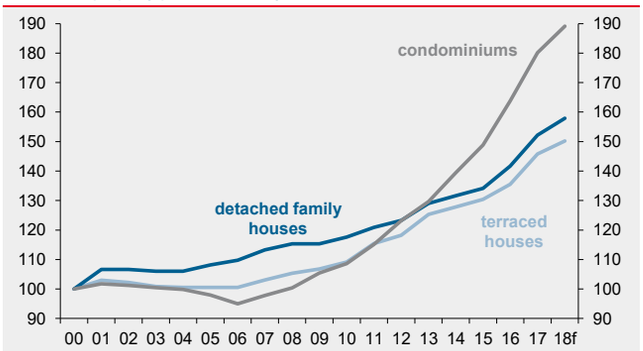
In recent years, a marked increase in construction activity has been offset by a large influx of new residents to the Rhine-Main conurbation. The number of completions in Frankfurt rose to more than 5,000 units in 2017 – much more than the average of around 2,400 dwellings per year between 2000 and 2013. This was due to the systematic mobilisation of building land reserves and the accelerated conversion of offices into apartments. Despite the higher completion figures and a somewhat slower recent increase in the number of inhabitants, the gap between supply and demand on Frankfurt's housing market does not seem to be narrowing. This is indicated by the development of residential property prices, which continue to rise for both owner-occupied apartments and homes (see chart p. 20). The expected Brexit newcomers will exacerbate the situation on the local housing market in the coming years and should contribute to ensuring that the rise in residential property prices and rents continues at least at a similar pace.

Regardless of Brexit, the problem of a shortage of housing can only be overcome in the long term in collaboration with the surrounding area. The average number of housing completions in relation to the number of inhabitants shows that Frankfurt has made by far the largest contribution to better housing provision in the last three years. While more than six residential units per 1,000 inhabitants were completed here in this period, the comparable figure in the neighbouring districts is considerably lower. In the Main-Kinzig, Hochtaunus and Offenbach districts, for example, less than three completions were achieved; in the city of Offenbach, at least, it was more than five (see chart next page).

In view of a dwindling stock of building land, it will become increasingly difficult for the city of Frankfurt to provide any noticeable relief to the housing market in the next few years. In view of on-going improvements on the office market, the next couple of years will also see a decline in the volume of office space converted into residential units. Even without several thousand Brexit newcomers, the city and the surrounding area face a challenge on the housing market. The densification of existing residential areas would therefore have to be supplemented by new residential neighbourhoods in the periphery on land previously used for agriculture or recreation.

Unbridled growth in residential property prices

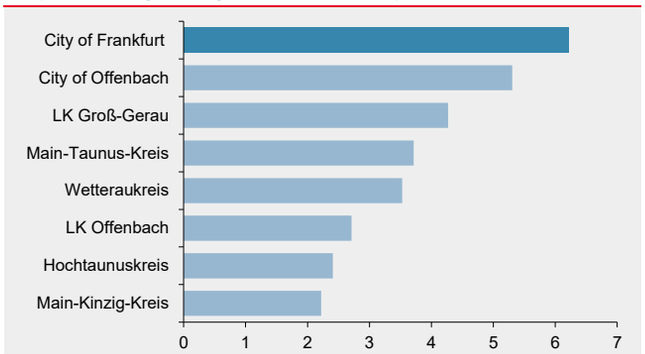
Residential property prices in the city of Frankfurt, 2000 = 100



Sources: Scope, Helaba Research

Residential construction activity per resident

Completed dwellings, average between 2015-2017 per 1,000 inhabitants*



*based on population at end of 2016; LK = Landkreis (district)

Sources: Federal Statistical Office, Helaba Research

New quarter meets with intense opposition

However, initial plans for a new quarter in northwest Frankfurt are already encountering fierce resistance, especially in neighbouring municipalities. It is therefore debatable as to whether or to what extent the potential for up to 12,000 dwellings can be exploited. In any case, the realisation of this project would probably take ten years and thus come much too late to provide any relief to Frankfurt's housing market when any newcomers arrive due to the Brexit. Therefore, if the conurbation is to continue to grow, it will primarily require more construction activity in the surrounding area. This will involve, in particular, an expansion of the (transport) infrastructure so that capacities keep up with demand and commuter times remain manageable. Experience also shows, however, that the planning and implementation of such infrastructure projects can be measured in decades rather than years.

Frankfurt's residential properties affordable for Brexit newcomers

An overstretched housing market will be less of a challenge for well-heeled Brexit bankers than for local residents and employees in other sectors. The displacement of lower-income sections of the population from the increasingly expensive urban area is therefore an issue that must be taken seriously. Bankers relocating from London are familiar with residential property prices and rents that are up to three times higher than in Frankfurt. They are also used to living in outlying districts because of the significantly higher cost of living. Considering prices in Frankfurt, which in their view are not so high at all, and above-average incomes in most cases, inner-city areas should also be affordable for them. Some of these newcomers therefore belong to the target group for residential towers under construction or planned in the upper price segment.

Brexit newcomers' varied demand for living space

However, not all Brexit-related jobs created in Frankfurt will be filled by employees from London. Some will be recruited elsewhere or even in Frankfurt and, in some cases, will not require additional living space. Others will initially commute and use serviced apartments or boarding houses, an adequate supply of which is emerging. In many instances, their families will join them at a later date and they will not be looking to rent larger apartments or buy a home until then. Part of this demand will be generated in inner-city residential areas near the workplace, while another part will be concentrated in the attractive surrounding area.

3 Good prospects for the labour market in the German financial centre

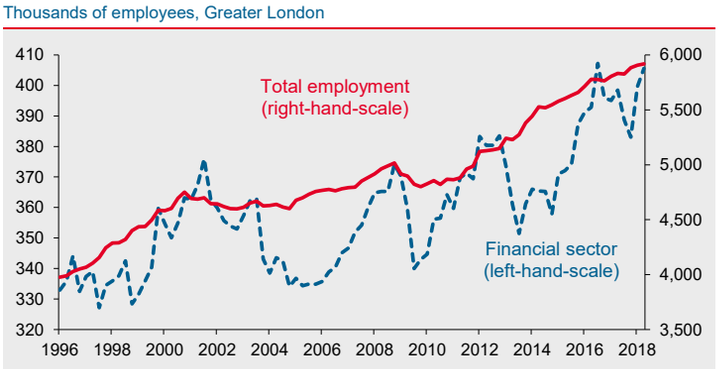
3.1 Relocation of business from the River Thames to the River Main

Jobs in London's financial sector in decline since autumn 2016, recently increasing again

Employment trends in the London financial sector are subject to strong fluctuations, while overall employment in the metropolitan area is only slightly cyclical and has been following a clear upward trend for a long time. In response to the bursting of the dotcom bubble in 2001, the number of jobs in the financial sector fell significantly by 11 % until the end of 2004, and in the following years there was a corresponding counter-reaction. With the outbreak of the global financial market crisis in 2008, financial sector employment initially fell by 8 % until the end of 2009 and then by a further 8 % in 2012/2013 after a temporary rebound. This was followed by a significant increase in jobs in London's banking and insurance sector. From autumn 2013 to autumn 2016, the number of employees rose by an impressive 16 % to 407,000. By the end of 2017, the number of finance-related jobs in the London region had fallen once again by 6 %. A similar number of new jobs were created in the first half of 2018, resulting in almost 406,000 financial sector employees in the summer.

Highly cyclical financial sector employment in London

Thousands of employees, Greater London

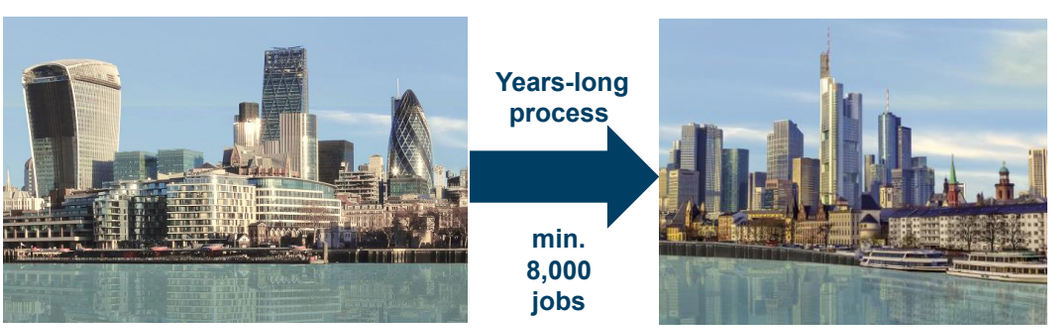


Sources: ONS, Helaba Research

More than 16,000 financial sector jobs affected by Brexit

As early as in our 2016 Financial Centre Study, we gave a rough estimate of the years-long restructuring process in European financial centres that was based on an agreement in the Brexit negotiations. This forecast, which has remained unchanged since then, is based on cautious assumptions: Of the more than 400,000 finance-related jobs in London, 5 % could be up for grabs due to Brexit. When any further job cuts in a persistently difficult environment are taken into account, more than 16,000 employees would ultimately be affected by the inevitable relocation of business.

Estimated business relocations to Frankfurt



Source: Helaba Research

This applies solely to the banking and insurance sector, not to related industries or euro clearing activities. Depending on an individual's willingness to relocate, this may lead to relocation and commuting from London to other European financial centres, or to local recruitment at the new location.

Forecast unchanged: 8,000 financial sector jobs for Frankfurt

Frankfurt, as the number 2 behind London in the competition among European financial centres, is likely to attract around half of the jobs that are at stake in London or that are created elsewhere as a result of Brexit. Our forecast of an increase over some years of at least 8,000 employees in Frankfurt's financial services industry is thus still valid and is now supported by an ever longer list of Brexit banks with a focus on the city. This has positive repercussions for the German banking centre in terms of its position relative to international competitors.

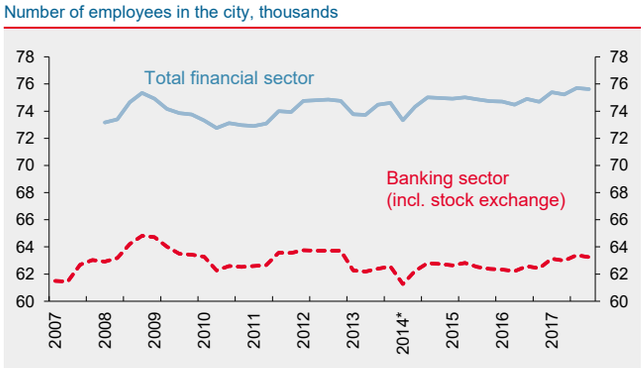
3.2 Forecast: Banking employment in Frankfurt

Review: Consolidation more than offset by higher volume of work

Banking employment in Germany as a whole has been on the decline for many years – unlike in Frankfurt. Since the outbreak of the global financial market crisis in 2008, there have been moderate, wave-like adjustments to staffing levels in Frankfurt's banking towers. Even though overall indicators were actually pointing towards consolidation, Frankfurt's banking employment even rose by 2 % since spring 2016 to a level of more than 63,200 at the end of 2017. Until today, the higher volume of work and additional staffing needs that the banks are confronted with, in light of increased requirements due to digitalisation and regulation, have more than compensated for cost-driven job cuts. In addition to compliance and regulation experts, there is also a particular need for highly qualified staff to design new products and processes at the interface between IT and banking activities, which is rapidly changing the employment structure. In addition, branch closures in Germany will lead to a concentration on the Frankfurt-based head offices of banking groups. Overall, Frankfurt's financial sector employment has developed at a similarly higher level to that of the banking sector: initially limited adjustments followed by a trend towards expansion up to 75,600 jobs in banking and insurance at the end of 2017.

Sound development on Frankfurt's job market

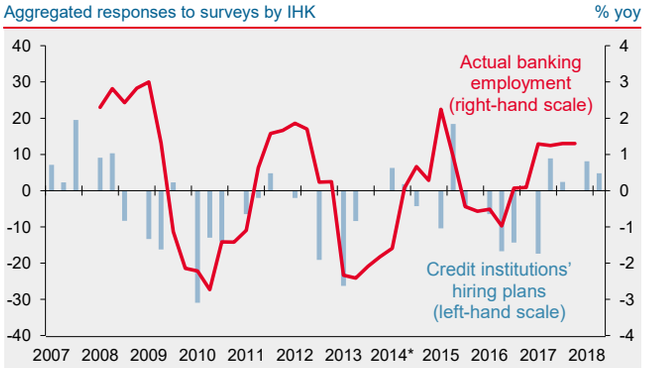
Number of employees in the city, thousands



* statistical break; Sources: Federal Employment Agency, Helaba Research

Employment rising again at Frankfurt's banks

Aggregated responses to surveys by IHK — % yoy



* statistical break; Sources: Federal Employment Agency, Helaba Research

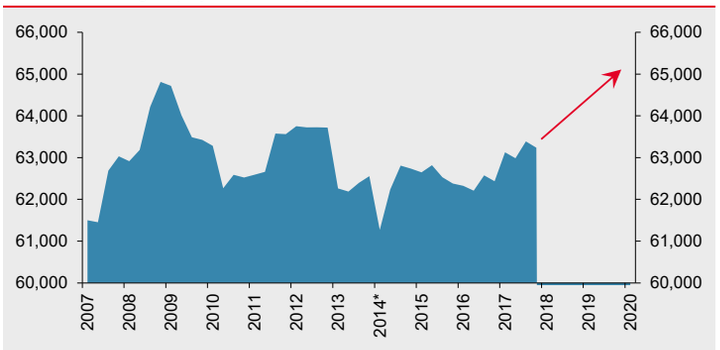
This solid trend in employment sets the German financial centre apart from its British counterpart, where the sector reacts much more quickly and cyclically to changing conditions owing to more flexible labour laws. Moreover, this has led to Frankfurt's share of total German banking employment rising in recent years by around one percentage point to almost 10 % for the first time.

Sentiment indicator for banking employment

Sentiment in the German banking centre is mixed, as is also shown by an indicator from the Chamber of Industry and Commerce (IHK). Based on a survey conducted three times a year, it provides information on the recruitment plans of Frankfurt-based banks, but is more a good snapshot of the current situation than a leading indicator. In May 2018, more than 40 % of the banks surveyed anticipated that their staffing levels in Germany would remain unchanged. A little over 30 % of respondents wanted to hire new employees and less than 30 % mentioned consolidation.

End of 2020: Frankfurt's banking employment on a new level

Number of banking employees in the city



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

Helaba's forecast for banking employment includes variety of effects

What prospects does Brexit hold in store for Frankfurt's labour market as the leading financial centre in Continental Europe? For many years we have been making a forecast specifically for banking employment in the city. In this respect, the narrow definition lends it significance. Various effects are included in our estimate: In addition to on-going consolidation in Germany, which is likely to occur mainly in 2018 and 2019, Brexit banks in Frankfurt started to increase and expand their staff this summer. As part of the Brexit-related restructuring process, these foreign institutions are primarily looking for experts in risk management, compliance, regulation and information technology. Moreover, there is also a certain amount of repatriation taking place, i.e. German banks are bringing parts of their business and the associated members of staff from London back to their group headquarters in Frankfurt. At the same time, increased digitalisation and regulatory requirements continue to drive up the volume of work in credit institutions and supervisory authorities. This is leading to an additional positive employment effect in the German banking centre as the capital of European financial supervision.

Around 65,000 bankers in Frankfurt at the end of 2020

Next year and the year after, the Brexit effect – even according to the cautious estimate in our baseline scenario – should have a clearly positive impact on Frankfurt's labour market and should more than compensate for any consolidation in the city. In the forecast period up to the end of 2020, we expect Brexit-related growth of around 4,000 bankers in Frankfurt, more than half of whom are likely to be hired by non-German institutions. After deducting jobs lost as a result of consolidation, this suggests a total of 65,000 bank employees in Frankfurt and represents growth of around 3 % or an increase of almost 1,800 bankers compared to the most recently available figure of 63,200 employees at the end of 2017. In the medium term, Brexit banks are expected to readjust their capacities and to further increase their staffing levels in Frankfurt. In this respect, a realignment of business policies within the changed structure of financial centres will probably play just as much a role as regulatory arbitrage. The impetus for this should come, at the latest, when the transition phase is over at the end of 2020 and the practical terms of Brexit finally become clear.

Should there be a no-deal between the United Kingdom and the EU, instead of the compromise on which we have based our forecasts, job creation in other European financial centres would be even greater. Frankfurt, as the preferred destination for banks to relocate their activities to, would then experience much stronger employment growth – representing both an opportunity and a challenge at the same time. ■

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