Helaba

Financial Centre of Frankfurt

More than Brexit

Research, October 2019



Values with impact.

Publisher:

Helaba
Landesbank Hessen-Thüringen

Research
Dr. Gertrud R. Traud, Chief Economist / Head of Research
Editor: Dr. Stefan Mitropoulos

Neue Mainzer Strasse 52 – 58
60311 Frankfurt am Main
Germany
T +49 69 / 91 32 - 20 24

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Editorial

Dear Readers,

The wisps of fog are hanging over London and enveloping Brexit – and are thicker than ever. What does this mean for Frankfurt? Soon after the referendum, we presented the case that Frankfurt could be one of the main beneficiaries of the Brexit-induced restructuring process in the European banking sector. Today, this theory seems to be coming to pass: our Brexit map showing the relocation of banks' activities has developed rapidly over the years and the list of financial institutions moving business to other financial centres has expanded, with Frankfurt one of the biggest winners. 31 Brexit banks from 14 different countries of origin have now selected Frankfurt as their preferred location. No other banking centre can currently match this tally!

So much for the data – but do Brexit bankers really exist in Frankfurt? And what is their view of Brexit and developments in Frankfurt as a financial centre? This summer, we interviewed a number of Brexit bankers in Frankfurt and gained some valuable insights. Brexit banks are well represented in Frankfurt's cityscape and most of them have leased offices in prime locations.

While our focus is once again on Brexit in this study, behind the scenes we are still keeping a watchful eye on all the criteria that define a financial centre. The prospects for the financial centre of Frankfurt seem to be deteriorating. An important locational factor is the stability of an economy. Is the stability of the German economy still assured? France has now overtaken Germany in terms of GDP growth and is also less affected by the downturn in industrial production. The French President is providing enormous state backing to the economy and the financial centre of Paris. The same cannot be said of Germany. Plans to introduce a financial transaction tax and the possible reintroduction of a wealth tax are just a few examples. Macron, on the other hand, favours a reform of corporate taxation. In Germany, there has been no talk of this over recent years, nor does the competitiveness of companies seem to be an important issue any longer.

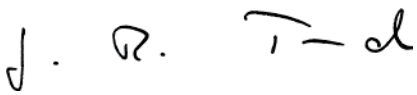
In addition to the risks associated with location-specific qualities, the situation is not exactly promising for banks and finance-related institutions either. The consolidation in the local banking industry will probably be more than offset by the expected influx of Brexit bankers in our forecasting period until the end of 2021. In the medium term, however, consolidation will lead to a significant reduc-

tion in the number of employees. Our forecast of 64,500 bank employees in Frankfurt at the end of 2021 is thus likely to constitute the high-water mark.

The local financial centre would be facing a sharp downturn if the environment were to change with regard to finance-related institutions. Paris scored a victory in the competition to become the new home of the EBA. So far, this has not posed any threat to Frankfurt. But what if the new President of the ECB, Christine Lagarde, were to draw attention to the potential conflicts of interest arising from the dual function of the European Central Bank as a monetary policy institution and as the supervisory authority of the major banks? By bundling three European supervisory functions – ESMA, EBA and the ECB's banking supervision – Paris would be able to achieve synergies while simultaneously solving the regulatory "problem" highlighted by Germans, in particular. A transfer of ECB supervisors to Paris would probably not only lead to the relocation of 40 % of the more than 3,000 ECB employees, but would also remove an important magnet for market players. At a stroke, everything would be different and the financial centre of Frankfurt less significant.

All these aspects will be examined in detail in our future financial centre studies, as we have been doing for 13 years. After all, as a Frankfurt-based universal bank with a strong regional focus, Helaba has long been committed to the local financial centre. Regardless of when and how the fog of Brexit lifts: it is essential that the attractiveness of the financial centre of Frankfurt be constantly improved.

Yours



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

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Editorial deadline: 26 September 2019



Author:
Ulrike Bischoff

phone: +49 69 9132 5256
research@helaba.de

Financial Centre of Frankfurt: More than Brexit

Frankfurt is the leading financial centre in continental Europe and the number two in Europe behind London. The Brexit-related restructuring process improves its position in the financial world. In fact, the gap between the British and German financial centres has narrowed in recent years. While London's image has suffered, **Frankfurt** has emerged as a **winner** in the international competition between financial centres, gaining in attractiveness and becoming the preferred location for a growing list of international banks.

The years of uncertainty about Brexit have **created facts** in the architecture of European financial centres. It is likely that the strategic decisions of banks affected by the impending abolition of the EU passport in the United Kingdom, and which are therefore establishing activities at alternative locations in order to retain the legal capacity to do business, will not be entirely reversible. In the meantime, the Brexit referendum has led to a number of structural and cost implications. Many Brexit banks are likely to use their offices in Frankfurt, for which they have concluded multi-year leases, to be closer to their German-speaking customers and to do more business in other EU countries in any case, taking advantage of the local transport hub.

Meanwhile, **31 international Brexit banks** have selected Frankfurt as their European base. The ranking of European financial centres preferred by international banks remains clear: Paris (eleven), Dublin and Luxembourg (nine and eight respectively) and Amsterdam (five) follow far behind Frankfurt. This is the result of our latest Brexit map, which illustrates the Brexit-induced shifts in the European banking industry. Smaller locations are also benefitting, albeit to a lesser extent. All European banking centres should see a certain degree of repatriation of business previously conducted in London.

Frankfurt's **role as a favourite** has become increasingly **apparent**. In late summer 2017, we initially listed 14 foreign banks that had opted to establish or expand their business activities in Frankfurt. By the time of our next study in September 2018, ten more Brexit banks had joined the list and another seven were added a year later. In this respect, none of the other major banking locations has anything even approaching the growth that Frankfurt has experienced.

Brexit banks are now **prominently** represented in Frankfurt's **cityscape**; most of them have leased offices in prime locations. As recently as last year, it was only possible to locate a few of their addresses; meanwhile, however, almost all of them can be found. Today, Brexit banks maintain a presence in the heart of Frankfurt's banking district.

The Frankfurt **office market** continues to benefit from buoyant demand with moderate construction activity, with the result that office rents are rising and vacancy rates have fallen to around 7 %. The positive development should continue. Even in the run-up to the UK's withdrawal from the EU, the impetus provided by Brexit banks is contributing to this. However, rising employment in other service sectors is having an even greater impact. In view of a number of major project developments, though, there is no danger of any shortage of office space over the next few years.

Brexit bankers in Frankfurt – they really do exist. In personal interviews we got to know some of them and gained some interesting insights into their views of Brexit and the development of Frankfurt's financial centre. Almost everyone described their new job as an **interesting** challenge and a good **opportunity for career progression**. The local Frankfurt offices of Brexit banks are staffed by mixed teams, both in terms of nationality and previous location. Participants in the survey reported on the constructive dialogue they have had with local supervisory authorities and their positive experiences using English in Frankfurt. The fact that Frankfurt has a lot to offer, both professionally and privately, is evidenced by its **qualities as a location** that interviewees frequently mentioned.

As expected, **business relocations** from the River Thames to the River Main began in 2018 and the first employees have already moved into their Frankfurt offices. This has gained momentum in 2019 and is likely to continue in the coming years. But **consolidation in the German banking sector** is also continuing apace. Recently, local credit institutions have increasingly announced planned adjustments to capacity, which should have an impact over the next few years. At the same time, however, increasing requirements with regard to digitisation and regulation should lead to an overall rise in employment in Frankfurt. The German financial centre, as the location of corporate headquarters and in its role as the capital of European regulation and supervision, is more strongly affected than other locations.

On the whole, consolidation in the banking industry is likely to be more pronounced in the years ahead than we expected a year ago. Nevertheless, the number of bank employees in Frankfurt should still increase in our forecasting period to the end of 2021. With respect to job creation in Frankfurt at international banks from London, our expectations seem to have been borne out. On the other hand, we are now somewhat more cautious about the extent to which German banks will repatriate their London-based staff in the wake of Brexit.

All in all, we anticipate a **Brexit-related boost to employment of around 3,500 jobs by the end of 2021**. In view of the original Brexit date in spring 2019, a considerable proportion of this increase in personnel has probably already taken place – but the corresponding labour market data are not yet available. This process of an expansion in personnel capacities will continue over the next two years.

Given the ongoing consolidation, however, the number of bank employees is likely to rise by a **total** of only around 1 % **by the end of 2021** compared with the end of 2018, or by about 600, to **64,500 bank staff**. This should represent the high-water mark for banking employment in Frankfurt. However, the more disorderly Britain's withdrawal from the European Union is, the more pronounced the relocation of banks' business from the River Thames to the River Main is likely to be. This would then be accompanied by a corresponding increase in the number of employees in Frankfurt.

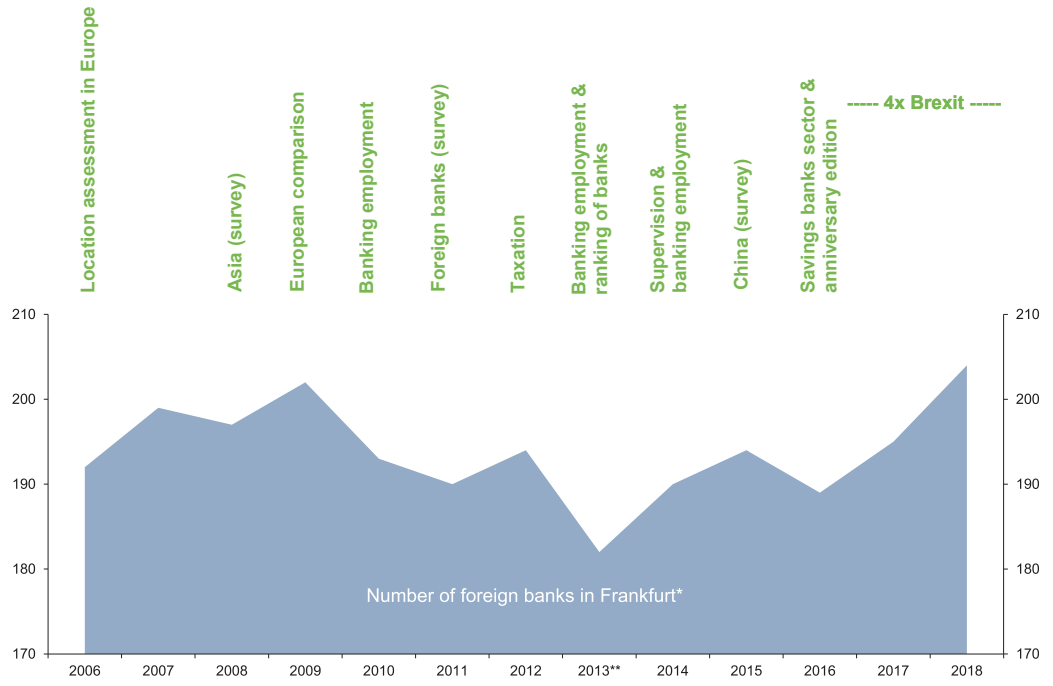
The decisive factor in this regard is the way in which locational factors in Germany continue to develop. Depending on this, some of these banks will probably remain in Frankfurt, even if Brexit does not happen, and at least partially implement their European strategies from here in the coming years. In this sense, the debate in the UK over withdrawing from the EU provides the opportunity to **strengthen** the German financial centre **in the long term**, regardless of its further development. Yet Frankfurt is **more than Brexit** and should constantly strive to improve its location-specific qualities in order to maintain and expand its strong competitive position in the financial world.

1 The characteristics of an international financial centre

Frankfurt is the leading financial centre in continental Europe and the number two in Europe behind London. This was the case even before discussion surrounding Brexit began and is likely to remain the case – albeit with a further narrowing of the gap between these two major financial centres. The Brexit-related restructuring process offers the German financial centre the opportunity to position itself even more effectively in the financial world. Indeed, Frankfurt's relative competitive position in relation to London has improved in recent years.

However, the German financial capital is not only defined by these catalysts, opportunities or challenges – Frankfurt is more than Brexit. With its numerous qualities, the German financial centre is an internationally attractive location, as demonstrated by the strong presence of foreign banks over many years in addition to our previous financial centre studies.

The themes of Helaba's financial centre studies in chronological order



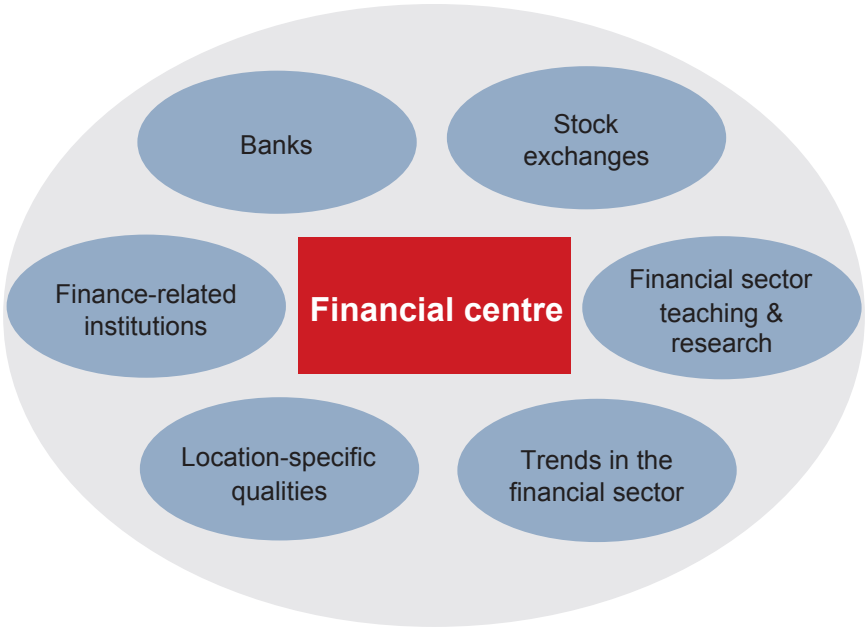
* Headquarters & representative offices (at year-end); ** 2013 statistical break;
Sources: Deutsche Bundesbank, Helaba Research

Helaba's studies have accompanied the financial centre on its journey

Since the publication of our initial study 13 years ago, we have been conducting in-depth research on the financial centre of Frankfurt and have examined various issues in closer detail. Our financial centre research is far more than Brexit alone; our forecast for banking employment is just as much a central element as surveys among international banks. We have been a constant companion to Frankfurt's financial centre over the years and, as early as 2006, we defined the characteristics of a financial centre for this purpose:[1]

[1] cf. Helaba Research (June 2006): "Frankfurt: The Financial Centre – A City on the Move"

Six core criteria of financial centre analysis



Source: Helaba Research

The original core: banks and stock exchanges

Ultimately, a financial centre is a geographical concentration of financial market players. But this alone is not enough for its international success. From the wealth of essential characteristics of a financial centre, we had previously identified five that are indispensable for a financial centre to position itself successfully in the long term in relation to its international competitors, and meanwhile we have added a further criterion. These core criteria include banks and stock exchanges – the nucleus of a financial centre, so to speak. Without the presence of a large number of these classic financial institutions and an active stock exchange, a location cannot be described as a financial centre. The higher the density of these players and the more they concentrate their activities in a financial centre, the more efficiency gains and agglomeration effects are generated. After all, personal contacts and exchanges in a lively community are still valuable today, not least due to the increasing use of technology.

Finance-related institutions now core criterion

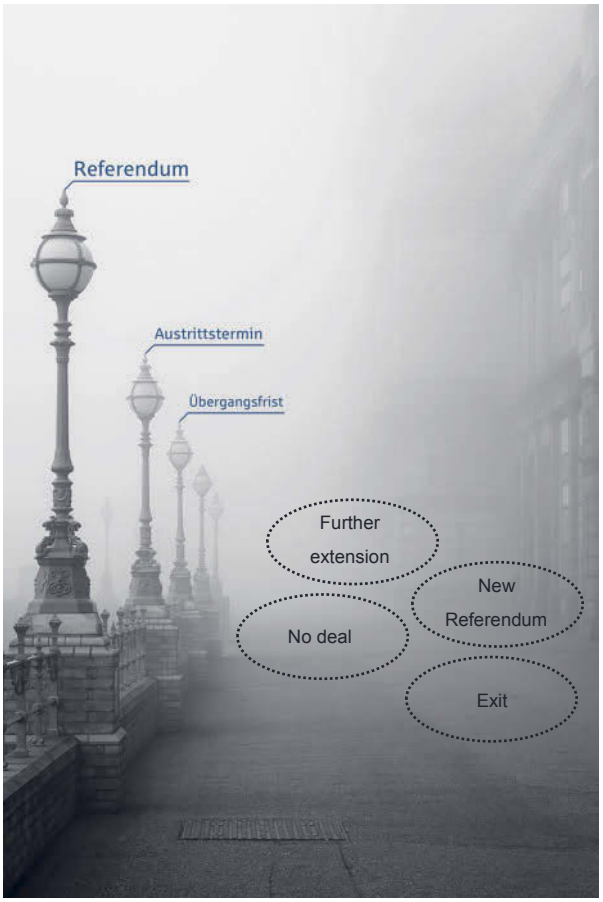
Financial sector teaching and research as well as trends in the financial sector are also essential if a location is to develop under its own steam. Only a financial centre that responds early to new developments based on its abundant potential for innovation has a good chance of success in the long term. In addition, location-specific qualities, such as transport infrastructure, cost aspects or quality of life, are essential in creating a favourable environment. In addition to these central characteristics, there is now a sixth core criterion – finance-related institutions. Against a backdrop of increased regulatory and supervisory requirements in the financial sector, central banks and local supervisory authorities have become indispensable, especially as they attract many other players and strengthen dialogue within the community. In all six core criteria, the international dimension plays an important role in the sustainable importance of a financial centre.

2 The impact of the fog of Brexit on Frankfurt

Several options waft through the hazy air

Brexit will have far-reaching and lasting consequences on both sides of the Channel. The length of the debate, with its countless rounds of voting and the back and forth of domestic politics in Britain, has resulted in a certain degree of resignation among the general public. When is Brexit finally going to happen and what shape will it take? More than three years after the referendum, the bank of fog lingering over London and Brexit is as dense as ever. With the passing of the original deadline at the end of March 2019 followed by a rather spontaneous intermediate deadline in April 2019, the EU approved an extension until the end of October 2019. Now it appears likely that the deadline will be extended yet again until the end of January 2020 and the danger of an unregulated withdrawal from the EU (a no-deal scenario) seems to have been averted for the time being. But nothing can be ruled out; a new referendum or even an exit from Brexit is still possible. Several options are wafting through the murky, hazy London air. At some point the wisps of fog will presumably clear.

Nebulous Brexit



Source: Helaba Research

Frankfurt gains at London's expense

Since the referendum in mid-2016, the competitive position of the German financial centre in relation to its counterpart in the UK has improved. Overall, the financial world's view of Frankfurt has changed for the better, while London's image has taken a battering. Numerous institutions have relocated their business activities and assets from the River Thames to the River Main, employees have been recruited and have moved into their new offices. It is likely that Brexit banks have adjusted their European business structures to varying degrees in order to compensate for the impending loss of EU passporting rights in the United Kingdom. Some banks in Frankfurt, however, have long since completed their Brexit-induced realignment or had already done so by the original departure date in the spring, albeit their local capacities will presumably be readjusted later.

Long-term strategic decisions in favour of other financial centres

Even if, contrary to expectations, Brexit were not to occur or a solution comparable to the EU passport were to be found, the financial centre of Frankfurt has gained in competition between international locations – both in terms of its attractiveness and among international banks. The question of whether, when and how Brexit will be implemented obviously matters to their local business activities. However, strategic decisions taken by the international banks concerned are unlikely to be entirely reversible. After all, although the Brexit referendum provided the impetus for this process, it has already led to a number of structural and cost implications. In this respect, Brexit banks will use their offices in Frankfurt, for which they have concluded multi-year leases, to be closer to their German-speaking customers and to do more business in other EU countries in any case, taking advantage of the local transport hub. The Brexit-induced restructuring process in the individual banks and the European financial centre landscape has increasingly resulted in faits accomplis during the years of uncertainty. In any case, some institutions probably wanted to position themselves more regionally, and this trend was accentuated and accelerated by the Brexit process. The intensity of competition in the German banking centre has grown, as has Frankfurt's international reputation.

Frankfurt an international city with its own charm

The prospect of a move from London to Frankfurt was not exactly met by rapturous enthusiasm on the part of the Brexit bankers' families, evoking memories of the Bonn-Berlin debate in Germany 25 years ago. A decision such as this made at corporate or government level, which has an impact on a person's own private life, usually provokes an initial feeling of antipathy towards the new location. In the case of the German capital, though, Berlin was already regarded as a cosmopolitan city at the time, while even today the long since outdated stereotype of provincialism still clings to Frankfurt. However, more and more people in Germany and abroad are now realising that Frankfurt has undergone enormous changes over the years and has become a multicultural, prosperous metropolis with its own unique charm. Meanwhile, this can even be seen in British press reports.

Due to its relatively manageable size, Frankfurt is not a mega-city with the corresponding traffic problems, but offers an excellent infrastructure and short inner-city distances in the heart of Europe, flanked by a plethora of green spaces. Compared to London or Paris, apartment rents are significantly lower, although some districts are very popular. Frankfurt can also be proud of its metropolitan luxury aspects such as exclusive boutiques, award-winning restaurants and trendy bars or its lively cultural scene.[2] If you approach Frankfurt with an open mind for its multifaceted, unique character, which skilfully combines the traditional with the modern, you will quickly settle in and learn to appreciate the quality of life it affords. Studies such as those conducted by the global personnel consultancy Mercer also confirm Frankfurt's high standard of living. In this ranking of the world's most liveable cities, the German financial centre has been well ahead of its French and British counterparts for years (most recently ranking 7th, 39th and 41st, respectively). Through concerted marketing by all relevant players, the financial centre of Frankfurt should self-confidently present its numerous advantages and further improve its public perception.

Interviews with Brexit bankers in Frankfurt a new feature

Our research examines the effects of the British withdrawal from the EU on the architecture of financial centres. Our three previous financial centre studies on the issue of Brexit have both continued to refine tried and tested aspects while presenting new ones each time with regard to the banking sector.[3] This study includes our updated Brexit map and employment forecast. It also presents an overview of the offices of Brexit banks in Frankfurt and a snapshot of sentiment that we captured in interviews with individual Brexit bankers this summer.

[2] cf. details in Helaba Research (September 2017): "Financial Centre of Frankfurt: In Pole Position for Brexit Bankers"

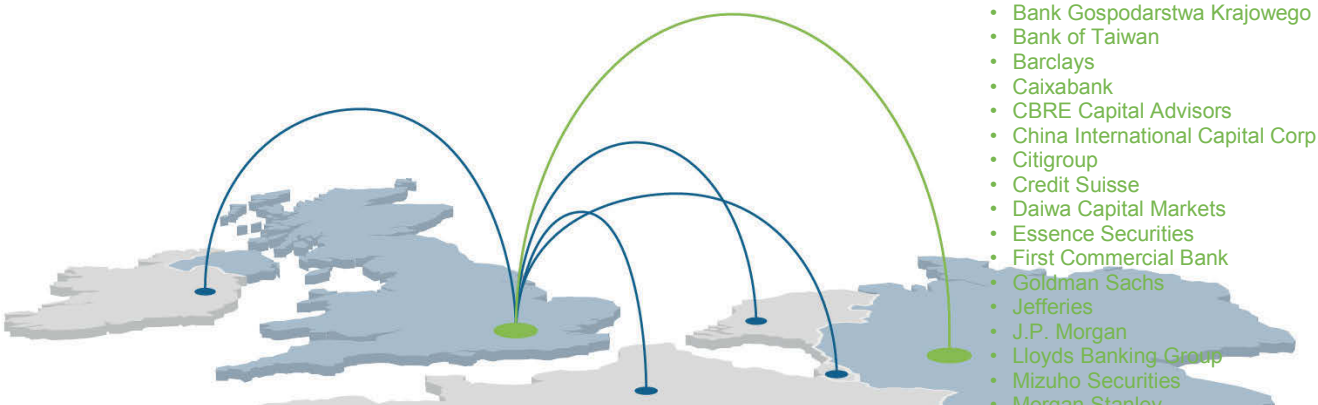
[3] cf. financial centre studies of Helaba Research in November 2016, September 2017 und September 2018

3 Brexit banks: Frankfurt the undisputed leader

Frankfurt the clear favourite with 31 Brexit banks

Helaba's Brexit Map has evolved over the last three years of debate about Britain's withdrawal from the EU. Having initially been designed as a rough outline soon after the 2016 referendum, meanwhile our map to visualise business relocations from London to alternative banking locations in Europe has become increasingly crowded – especially for Frankfurt. By the end of August, 31 non-German Brexit banks had selected the German financial centre as their EU hub. The ranking of European financial centres preferred by foreign banks remains clear: Paris (eleven), Dublin and Luxembourg (nine and eight respectively) and Amsterdam (five) follow far behind Frankfurt. In addition, smaller European banking locations are also reaping benefits, albeit to a lesser extent. Moreover, business that had hitherto been conducted in London is being repatriated, to varying degrees, in all European banking centres.

Brexit map: relocation decisions by foreign banks*



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

Paris
- Bank of America
- Citigroup
- Credit Suisse
- Goldman Sachs
- HSBC
- J.P. Morgan
- Morgan Stanley
- MUFG Securities
- Nomura
- Perella Weinberg
- Wells Fargo

Amsterdam
- Commonwealth Bank of Australia
- Credit Suisse
- MUFG Securities
- Norinchukin Bank
- Royal Bank of Scotland Group

Luxembourg
- Banco Santander Brasil
- Bank of Singapore
- China Everbright
- Citigroup
- J.P. Morgan
- Julius Baer
- Lloyds Banking Group
- Northern Trust

Frankfurt
- Bank Gospodarstwa Krajowego
- Bank of Taiwan
- Barclays
- Caixabank
- CBRE Capital Advisors
- China International Capital Corp.
- Citigroup
- Credit Suisse
- Daiwa Capital Markets
- Essence Securities
- First Commercial Bank
- Goldman Sachs
- Jefferies
- J.P. Morgan
- Lloyds Banking Group
- Mizuho Securities
- Morgan Stanley
- Nomura
- Oppenheimer
- Rabobank
- Raymond James
- RBC Capital Markets
- Royal Bank of Scotland Group
- Silicon Valley Bank
- Société Générale Bank & Trust
- Standard Chartered Bank
- Sumitomo Mitsui Banking Corp.
- UBS
- VTB
- Westpac
- Woori Bank

*expansion of existing or establishment of new offices by banks domiciled outside Germany (in addition to expansion of capacities by domestic banks at their respective locations)
Sources: Press, Helaba Research (as of: end of August 2019)

Definition of Brexit banks

Our Brexit map focuses on foreign banks and thus reflects the international attractiveness of Frankfurt as a business location. In this sense, our definition of Brexit banks are primarily 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. In addition, there are credit institutions that simply want to open a new office in order to be part of the growing clusters at these locations 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 or insurance companies are not included for reasons of clear differentiation in order to focus on the banking sector. They generally have a preference for Dublin or Luxembourg as an alternative to London. Moreover, on

our Brexit map we only list each institution once for each location, even if it is located there with several licenses for different business segments. Additionally, we concentrate on central relocations and not on all those resulting from the regional diversification of major banks. This would make the list even longer for Frankfurt, for example.

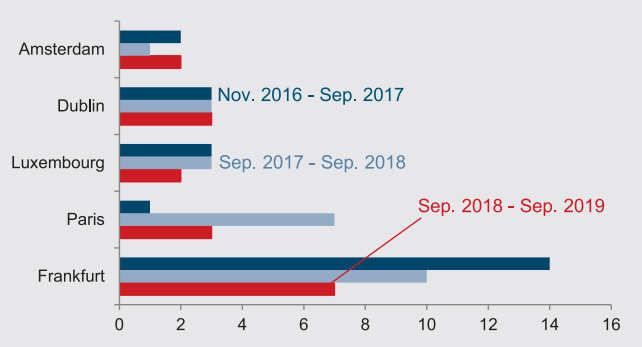
Brexit map grows rapidly – especially for Frankfurt

Frankfurt's role as a favourite has become increasingly obvious over the years. This is how our Brexit map for the German financial capital has developed: In late summer 2017, we initially listed 14 foreign banks that had opted to establish or expand their business activities in Frankfurt. By the time of our next study in September 2018, ten more Brexit banks had joined the list and another seven were added a year later. In this respect, none of the other major banking locations has anything even approaching the growth that Frankfurt has experienced.

In the meantime, more and more institutions in the German banking centre have received their licences and have recruited new staff. Some of the new Frankfurt-based employees are commuting for the time being from their previous location in London and, in some cases, their employers are reimbursing their costs for a limited time or paying for temporary accommodation. In the medium term, some of these bankers will probably bring their families over to join them if a suitable house or flat as well as a place in a childcare facility or international school can be found. This phenomenon could already be observed at the beginning of the new school year late this summer in Frankfurt – despite the ongoing uncertainty surrounding Brexit. In order to make the move easier for their employees, both organisationally and financially, many institutions offer a wide range of incentives.

Development of the Brexit map in Helaba's studies

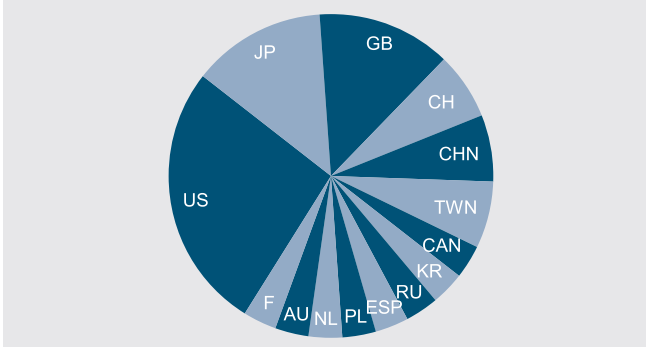
Growth in foreign Brexit banks



Sources: Deutsche Bundesbank, institutions, Helaba Research

The 14 countries of origin of Frankfurt's Brexit banks

Number of foreign banks by ISO code



Sources: Deutsche Bundesbank, institutions, Helaba Research

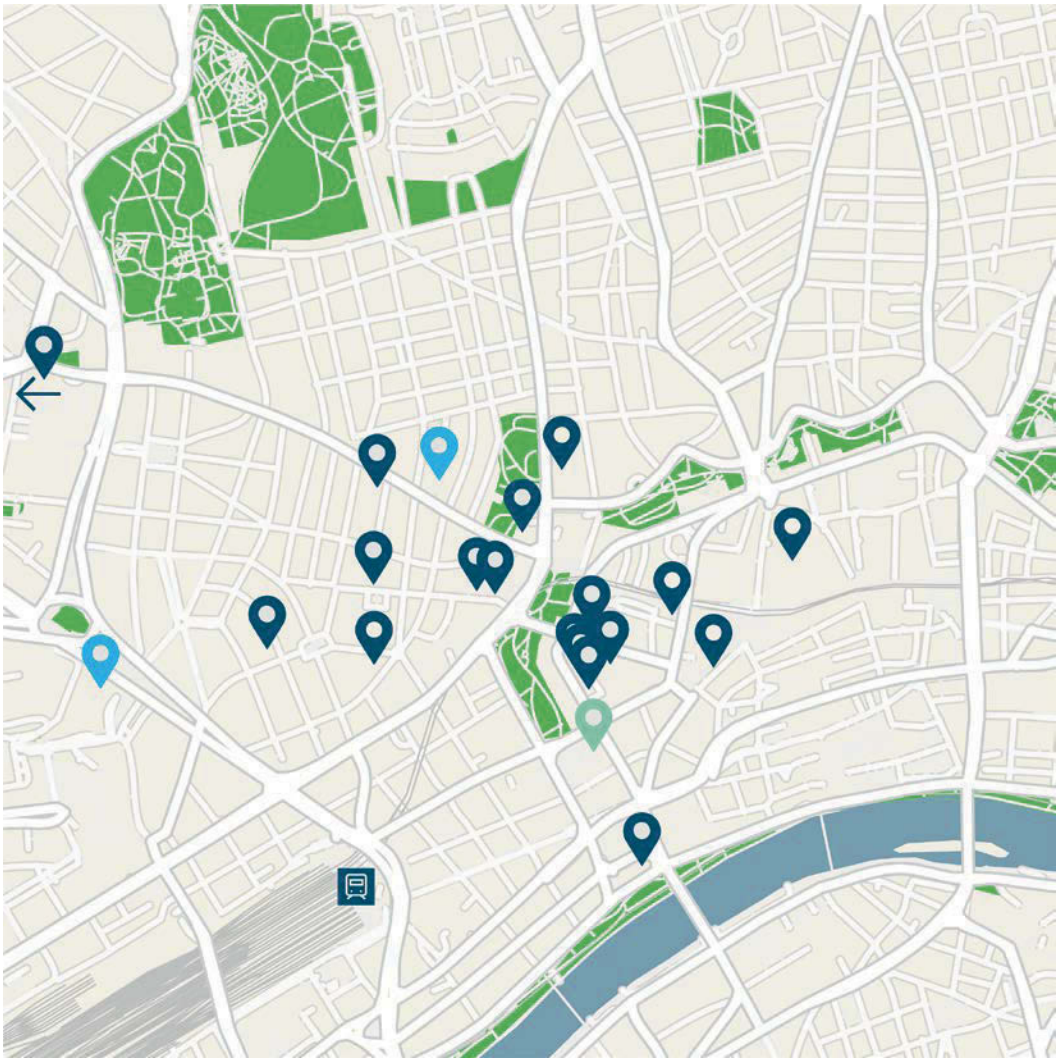
ECB criticism as trigger for more relocations

Overall, there have been very few official reports of new relocations by banks in the alternative locations to London in recent months and only a few public statements from the Brexit banks identified to date as to exactly how their restructuring plans will ultimately unfold. After all, the original deadline for Brexit and thus for the impending expiry of the EU passport passed as recently as spring 2019. Recent criticism voiced by supervisory authorities such as the ECB regarding the Brexit preparations of some institutions was intended to prompt the relocation of even more activities and staff to the continent in the foreseeable future. At the end of the day, financial institutions will have to adapt to all possible Brexit outcomes and ensure that they have adequate arrangements in place at their new alternative locations. The consequences of this should also make themselves felt in the German banking centre, in particular, as the primary beneficiary of the Brexit-related restructuring process.

Credit institutions that had decided to establish or expand their business activities in Frankfurt by the end of August comprised a broad spectrum of nationalities (a total of 14). Several Frankfurt Brexit banks come from the United States, Japan and the United Kingdom. There are also a number of other banks from Asia (two each from China and Taiwan and one from Korea) and two from Switzerland. The countries of origin of the other new international banks are predominantly from Europe, while Canada and Russia account for one institution each. All in all, there are a host of well-known institutions and international heavyweights for whom Frankfurt has become a place-to-

be in global finance. Even Japanese mega-banks traditionally based in Dusseldorf, for example, have now committed themselves to Frankfurt with new licenses and are gradually building up their presence here. This will enable the German financial centre to position itself even more effectively within its own national borders.

The locations of Brexit banks in downtown Frankfurt*

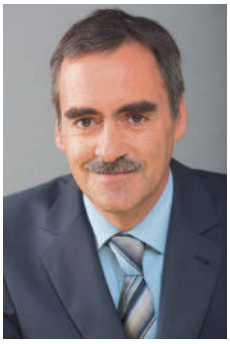


* only three Brexit banks do not have an official address yet;
a dark blue marker denotes one bank, a light blue marker denotes two banks and a green marker denotes six banks at the same address;
Sources: Helaba Research (as of: end of August 2019)

Prime office locations for Brexit banks

Brexit banks have established a strong presence in Frankfurt's cityscape. Most of them have already leased office space in prime locations and, due to their decision to expand their local activities, some are planning to move offices in the foreseeable future. As recently as last year, it was only possible to locate a few of their addresses; meanwhile, however, almost all of them can be found – as our map of the downtown area shows. Today, Brexit banks maintain a presence in the heart of Frankfurt's banking district. The completion of new office projects and brisk construction activity will increase the availability of office space in central locations.

4 The Frankfurt office market – on the up



Dr. Stefan Mitropoulos
Real estate research

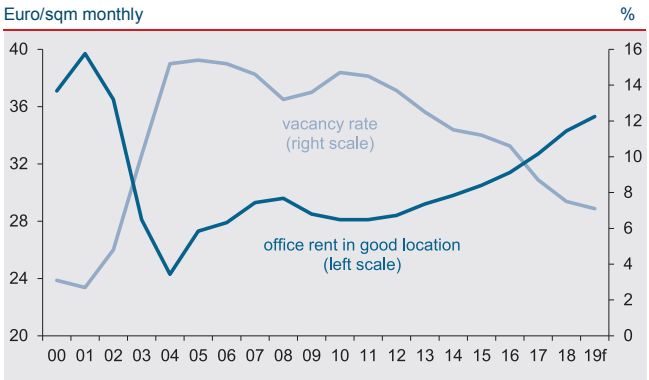
phone: +49 69/91 32-46 19
research@helaba.de

Rising rents and falling vacancy rates have again characterised Frankfurt's office market in 2019. Average office rents in prime locations have been rising for years, but are still below the historic peak at the turn of the millennium. In a comparison of German office locations, Frankfurt has by far the highest rents. However, when compared to other European financial centres, Frankfurt does not seem expensive: rent levels are still considerably lower than in London and noticeably lower than those in Paris and Dublin – an advantage in the competition between financial centres.

The office vacancy rate in Frankfurt has declined in recent years from a peak of over 15 % to a current level of about 7 %. The main factor has been the ongoing boom on the labour market: from 2008 to 2018, the number of employees subject to social insurance contributions in the city rose by more than 96,000, with 19,000 being added to payrolls last year alone. It is estimated that almost half of this increase is attributable to office jobs. The conversion of office space into residential space, in particular, has likely played an equally important role in reducing vacancies. Nevertheless, Frankfurt still has the highest vacancy rate among the leading German office locations together with Dusseldorf (6 %), while in Berlin, Munich or Stuttgart, at 2 %, there is already a genuine shortage of space.

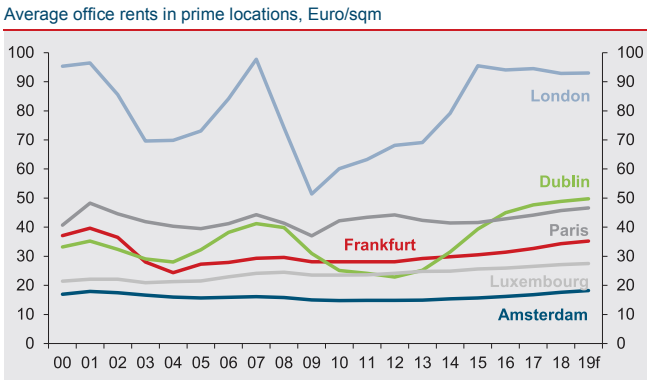
With 12.6 million sqm of office stock in Frankfurt, less than 900,000 sqm are currently vacant. Availability in the central locations preferred by the financial sector has become scarce, with a vacancy rate of around 4 %. In less attractive locations, such as Niederrad, Mertonviertel or Eschborn, it continues to be in the double-digit percentage range. It should also be borne in mind that less than half of vacant office space in Frankfurt now boasts modern facilities and less than one-fifth is in inner-city locations, including the banking district and Westend. It has become difficult to find suitable office space in this segment of the office market.

Frankfurt's office rents rise further, vacancy declines



Sources: Scope, Helaba Research

London, Dublin and Paris more costly than Frankfurt



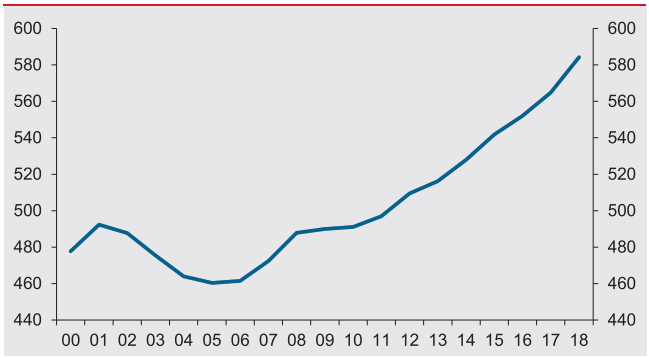
Sources: Scope, Helaba Research

This also applies to Brexit banks, that would like to relocate to Frankfurt and which as a rule prefer a central location. However, some of them are not even dependent on a new lease, as they can accommodate additional employees at their current locations. In most cases, this will initially involve a limited increase in staff numbers, which will only be increased over time. The growing availability of co-working space could provide the necessary flexibility in this respect. Although there is only a short time remaining before the latest Brexit deadline is upon us, it is surprising that only a small number of new lettings have so far been directly related to Brexit. In broker reports, the issue of Brexit had almost disappeared in the first half of 2019.

The Brexit-related increase in office staff in Frankfurt will be spread over several years. However, there will be on-going consolidation in the banking industry, which is likely to gain momentum as a result of the negative interest rate environment, a situation that will presumably be entrenched for years to come. Consequently, our employment forecast for the banking sector over the next two years is more modest than would be expected thanks to Brexit alone (see p. 22). Additional office demand from the banking sector in Frankfurt as a whole should, therefore, remain very limited over this period.

Rising demand for offices due to higher employment

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

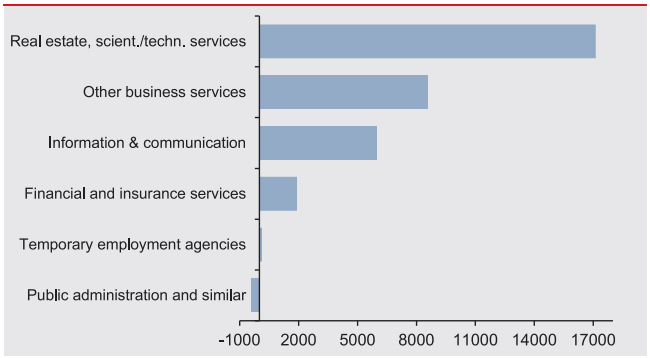


* subject to social insurance contributions

Sources: Federal Employment Agency, Helaba Research

The service sector drives demand

Employees subject to social insurance contributions, change 2013-2018*



*sectors particularly relevant to the office market, as of 30 June

Sources: Federal Employment Agency, Helaba Research

Demand for space not limited to banks

Over the next few years, numerous jobs will also be created in other sectors that are of relevance to the regional office market. In the first half of 2019, the financial sector again outperformed other service sectors such as consulting firms and co-working providers in terms of rental turnover. However, demand for office space in Frankfurt is broadly diversified. A glance at employment data shows that the impetus in the last five years did not come from the financial sector. Among the services of relevance to the office market, scientific, technical and other business services, including real estate and the information and communication sector, are the most prominent. Thus, even excluding Brexit, the number of office employees will continue to increase significantly over the next couple of years. Accordingly, demand for space should remain high.

Significantly more completions in 2019

Nevertheless, the fact that there will be no major bottlenecks on Frankfurt's office market will largely be due to a number of project developments. If 2017 and 2018 each saw the completion of well below 100,000 sqm – not even half of the long-term average – about 170,000 sqm are expected to be realised this year. These include major projects such as Marienturm and Omniturm in a central banking location, the Hafenbogen at Westhafen as well as the first two of a total of four buildings of The Docks at Osthafen.

The completion of several major office projects is also planned for next year, which will ensure a growing supply of space. These include the Global Tower and Junghof Plaza with more than 50,000 sqm of space in a central location as well as Grand Central and DB Brick (together providing almost 70,000 sqm), both of which have been fully leased by Deutsche Bahn. With Sky Eschborn and The Twist, two major completions are also planned in secondary locations. It will probably be three years before the largest project, Four Frankfurt, located on the former Deutsche Bank site with around 100,000 sqm of office space, is completed.

There is also a lot going on in the surrounding area. One example are plans for the Spring Park Valley project in Bad Vilbel's Quellenpark, 12 km from downtown Frankfurt. According to the investor, this is where 6,500 people will be living and working in Europe's largest innovation district in five years' time.

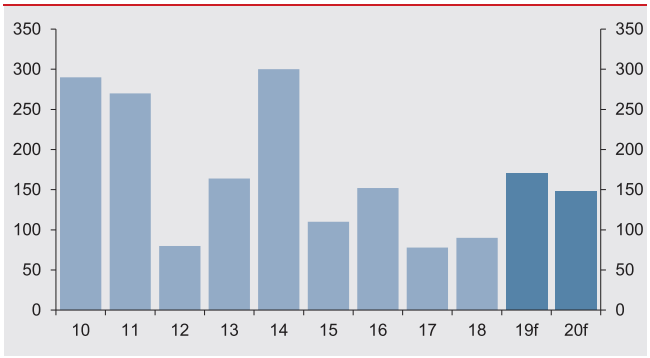
Selected office projects in Frankfurt

Project	office space, sqm	completion
Junghof Plaza	23,000	2020
Grand Central	45,000	2020
Global Tower	28,500	2020
DB Brick	23,000	2020
Sky Eschborn	15,000	2020
The Twist	12,500	2020
ONE	43,000	2021
99 West	24,000	2021
Europa Center	31,500	2021
Four Frankfurt	100,000	2023/2024
Hafenpark Quartier	56,000	2024

Sources: press releases, project developers, Helaba Research

Higher level of completions, but not too high

Office completions in Frankfurt, thousand sqm



Sources: Scope, Helaba Research

Rents approaching previous record highs

Office vacancies in Frankfurt are likely to decline further for the time being. In view of the well-stocked development pipeline, however, over the next few years we do not expect the vacancy rate to fall to the 2 % seen in other top German locations. Even the additional demand generated by Brexit will not change this situation. Office rents in good locations should continue to rise in 2020, approaching their previous record highs at the beginning of the millennium. This means that Frankfurt will remain an affordable office location in comparison to its global financial centre peers. Relative to the long-term average, rental turnover should remain high, which is confirmed by the strong letting figures in the first half of 2019.

5 Interviews with Frankfurt's Brexit bankers

Helaba survey with a tried-and-tested concept

Brexit bankers in Frankfurt – they really do exist. In personal interviews we got to know some of them and gained some interesting insights. Their views on Brexit and the development of the financial centre are summarised here, providing a qualitative element that rounds off our primarily quantitative analytical approach. The basis for this summer's interviews was our questionnaire concept, which we created over ten years ago and which we have used again and again in surveys of international banks and slightly modified for this year's interviews. This led to enlightening discussions with Brexit bankers of various nationalities, most of whom are now active in Frankfurt at management level and have relevant experience of working in London. Almost everyone described their new job as a good opportunity for career progression:

"The chance to shape the new organisational structure or unit of one's own bank here is an interesting challenge and an attractive career opportunity," is how a high-ranking banker, who had only recently taken up his managerial post on the River Main shortly before the interview having spent around 20 years in London, summed up his situation.

Noticeable increase in staffing levels in Frankfurt

The importance of banks' Frankfurt offices is gaining at the expense of London, including new EU hubs in the German financial centre. The majority of banks surveyed want to cover the German-speaking region and neighbouring countries from the centrally located city on the River Main. In addition, many are seeking to expand their regional diversification. Most of the survey participants reported that the number of staff involved in their Frankfurt-based business activities had already been significantly increased. After all, they wanted to be prepared for the originally envisaged Brexit date at the end of March 2019. Some banks, for instance, have almost completed their recruitment activities in Frankfurt, while other Brexit banks have additional vacancies in their newly leased offices. Overall, there are plans for a further expansion in staffing levels in Frankfurt once the British withdrawal from the EU actually becomes a reality.

"Even if there is an exit from Brexit, a lot (of the new business activities) will remain in Frankfurt," said the managing director of a major Asian bank.

In this case of an exit from Brexit, there would be partial relocations back to London for reasons of efficiency, but a considerable chunk of the new Frankfurt business would nevertheless remain here. After all, there is a widespread trend towards relocating business to regions in which customers are located – irrespective of Brexit. A similar view was taken by a Brexit banker who is involved in the risk management side of setting up her bank's new unit in Frankfurt. She claims that her bank would continue operating from Frankfurt over the next few years whatever happens and would adjust its European strategy, including its geographical distribution, in the medium term.

Mixed teams

The local Frankfurt offices of Brexit banks are staffed by mixed teams, both in terms of nationality and previous location. In many cases, bankers from London or from the bank's home country have been recruited for high-level positions. The employees come from many different countries; at one Brexit Bank in Frankfurt there are as many as 30 nationalities. Some of these staff were recruited here and some were transferred from London to Frankfurt, with Britons among them. Some of the new Frankfurt-based staff are commuting on a temporary basis.

"There is no problem in recruiting employees for Frankfurt" was the conclusion of the managing director of an internationally focused bank, which has been increasingly active here since obtaining its new license at the end of 2018.

With regard to the job market in the German financial centre, the excellent pool of talent and the networking strength of the local staff were two points that were emphasised during the interviews. Ultimately, in addition to an employee's professional expertise, his or her network of local contacts is a valuable asset – especially when a bank is setting up an office in a new location.

Key reasons for choosing Frankfurt as a location

Answers that were given multiple times in Helaba survey of Brexit bankers



Source: Helaba Research

Personal views on Frankfurt's qualities as a location

Answers that were given multiple times in Helaba survey of Brexit bankers



Source: Helaba Research

Many of Frankfurt's assets come up again and again

Frankfurt has a lot to offer, both professionally and privately. This is also reflected in the recurrent answers to the interview questions as to why Brexit banks selected Frankfurt and what survey participants personally like about the city or would not have expected. Germany's economic strength, which promises attractive market potential in a stable environment and fits in well with a Brexit bank's own business strategy, was cited several times as the main reason for choosing Frankfurt as a location. Hence, some of the banks surveyed were already based here before the debate over Brexit began and are now able to expand on the basis of their existing infrastructure.

In addition, the importance of the German financial centre itself in addition to its high-profile protagonists (e.g. supervisory authorities or the stock exchange) act as a magnet for Brexit banks. Another asset that is repeatedly mentioned is Frankfurt's role as a centrally located international transport hub. The hub function enables institutions to conduct their business activities smoothly in other European countries as well.

From a personal point of view, the interviewees particularly appreciate Frankfurt's cosmopolitan atmosphere, which has developed tremendously over the past ten years. Outside Germany, Frankfurt is often mistakenly regarded as provincial and, according to participants in the survey, many are positively surprised by how international the city really is. In this regard, other factors that interviewees noted were Frankfurt airport's excellent international connections and their positive experiences with using English in the city:

"English has meanwhile become one of Frankfurt's qualities."
"You can get by here without speaking German."

Furthermore, participants in the interviews stated that this was also the case when it came to dealing with a growing number of authorities, but unfortunately not yet for all of them. Some expressed the view that there was room for improvement in the availability of international daycare and school places, which are difficult to obtain without the financial and organisational support of their employer.

Brexit bankers value enormous time savings that Frankfurt offers

Many Brexit bankers praised the considerable time savings that Frankfurt offers thanks to its compact size – especially in comparison to London – and considered this to be a key locational advantage. This degree of efficiency provided by the city was also seen when commuting from the surrounding area. In addition, Frankfurt's attractiveness for families was mentioned several times, with the large number of green spaces in the city and the various opportunities for daytrips to the local countryside both playing an important role. The outstanding quality of life was also highlighted, which is partly due to the fact that prices are lower than in London. Some were impressed by Frankfurt's diverse urban development and vibrancy, while others expressed their desire for additional leisure activities. The survey participants, however, were aware of the difference in size between London and Frankfurt and what should be taken into account when making comparisons.

With regard to the local housing market, the survey revealed that there are some shortages but that most respondents were not affected. For some, the search for accommodation was conducted using letting or estate agents; others had already lived in Frankfurt before. A number of employers provide assistance in the form of benefit packages to cover any Brexit-related costs incurred by their employees (e.g. temporary commuting, relocation, etc.). However, some survey participants were surprised about the relatively high rents in Frankfurt. In this respect, many Londoners had unrealistic expectations, even though finding accommodation on the other side of the Channel is considerably more difficult and much more expensive. Leasing adequate office space in Frankfurt is comparatively easy, interviewees noted, but shortages are beginning to appear in central locations.

The Brexit banks surveyed described the process of obtaining banking licences as well coordinated. They emphasised the constructive dialogue they maintained with the supervisory authorities in the German financial centre:

"BaFin justifiably has a good reputation," or "The view of BaFin from a Londoner's perspective is positive," said managing directors of leading international banks.

Most survey participants had a positive opinion of the financial community in Frankfurt's banking centre, describing it as lively and noting the intensive dialogue between the numerous players. In view of Frankfurt's relatively limited size compared to London, it follows that the community here is obviously smaller. However, according to interviewees, this often leads to impromptu encounters that are important for business, for example in the city centre or in an office lobby. After all, the Germany financial centre consists of a closely-knit network of people and institutions.

Vision for Europe's financial centre architecture

The interviews were rounded off by a glimpse into the future of Europe's financial centre architecture in ten years' time: almost all survey participants expect that Brexit will erode London's dominance. At the same time, most of them do not expect any change in the pecking order of London before Frankfurt before Paris. However, one Brexit banker believed that Frankfurt would be at the forefront of European financial centres in the future, while another pointed to the city's limited capacity as a constraining factor in the process of catching up with London. In any case, they added, Frankfurt's future position depends on the commitment of its players.

6 Banking employment in Frankfurt on the rise

Structural change in the banking industry

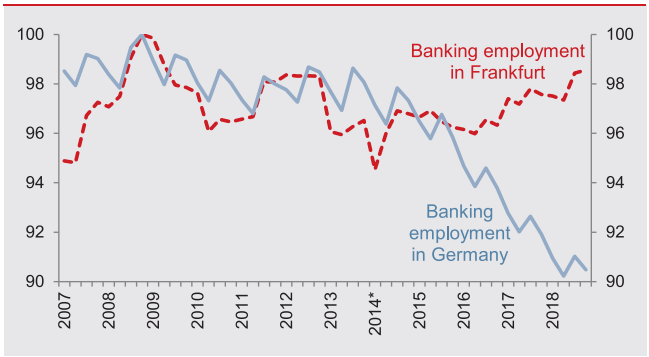
Employment in Frankfurt's banks is developing at a moderate pace, a positive contrast to the years of decline in the German financial sector as a whole. In addition to the growing popularity of Frankfurt, this is being fuelled by a reduction in the number of branches across the country, leading to a concentration in banks' local head offices. With the branch network having noticeably thinned out, particularly in recent years, there were fewer than 27,900 bank branches in Germany at the end of 2018. This means that the number of branches in Germany has more than halved since 1998, whereas this trend was not nearly as pronounced in Frankfurt. At the same time, a structural change is taking place with regard to the professional requirements in the banking industry. There is a shift towards having fewer employees with traditional banking qualifications and more specialists with academic degrees, who then tend to work at banks' corporate head offices rather than in branches.

Accordingly, Frankfurt's share of total bank employment in Germany has risen steadily over the past few years and reached the 10 % mark for the first time at the end of 2018. At the same time, the importance of the banking sector in relation to other sectors in Frankfurt has declined somewhat, with the result that its most recent share of employment here amounted to less than 11 %. Nationwide, however, the share of bank employment as a proportion of total employment has meanwhile fallen to just under 2 %. In this respect, the industry's focus on Frankfurt as the German banking centre has become increasingly pronounced over the past few years.

An upward trend since spring 2016

On balance, consolidation in the German banking centre has remained manageable to date, as there has been a simultaneous need for more staff, especially in areas such as digitisation and regulation. Since the spring of 2016, bank employment in Frankfurt even had displayed a slight upward trend, reaching almost 63,900 by the end of 2018 (the last available data on total bank employment).

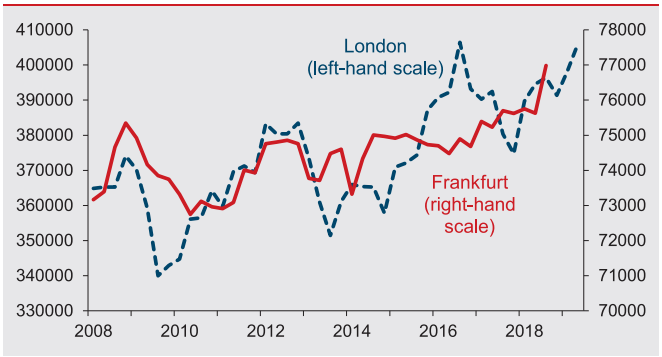
Greater concentration in Frankfurt headquarters



* statistical break

Sources: Federal Employment Agency, Helaba Research

London's financial sector more cyclical than Frankfurt's



Sources: Federal Employment Agency, ONS, Helaba Research

Frankfurt's financial sector as a whole (including insurance and investment companies) had almost 77,000 employees at the end of 2018. Both employment aggregates have seen a similarly modest development in Frankfurt. London's financial sector is different and more cyclical: after significant ups and downs in recent years, by mid-2019 there were more than 406,000 financial sector jobs in Greater London. The significantly higher number of employees in London's financial sector compared to Frankfurt can partly be explained by the differing spatial demarcation (metropolitan versus urban area).[4]

[4] cf. our extended spatial demarcation for the financial centre region of Frankfurt called BIG FFM on Helaba Research's website (September 2017): "Financial Centre of Frankfurt: In Pole Position for Brexit Bankers"

Employment growth in 2018 partly Brexit-related

Brexit-related hiring also played a role in the increase of around 650 banking staff in Frankfurt last year, partly at international banks already located here and partly due to the opening of new branches of European and international credit institutions. The relocation of business activities from the River Thames to the River Main began in 2018 and the first employees have already moved into their new offices in Frankfurt. This restructuring process has gained momentum in 2019 and is likely to continue in the coming years.

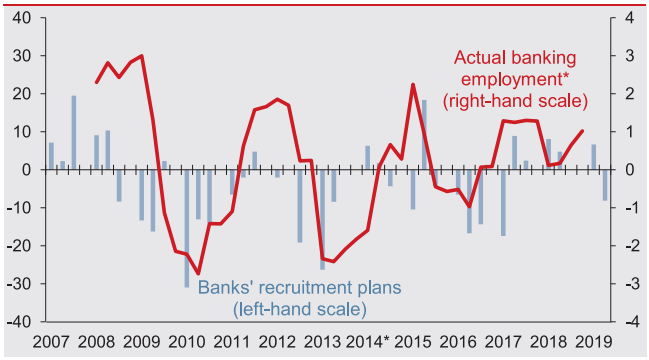
Meanwhile, the sentiment in the German banking centre has remained subdued, as a survey by the Chamber of Industry and Commerce (IHK) shows. Based on a questionnaire conducted three times a year, this indicator shows what the employment plans of Frankfurt banks are in the near future. In the early summer of 2019, more than 40 % of the banks wanted to leave their domestic workforce at roughly the same level. Almost one third were planning job cuts and around one quarter an expansion in their workforces.

Many factors still affecting employment

After all, consolidation in the German banking sector is far from over. For years, banks have been under considerable pressure on both the income and cost sides. As a result, there has recently been an increasing number of statements from local banks about upcoming reductions in capacity, which should have an impact over the next couple of years. At the same time, however, increasing requirements due to digitisation and regulation are leading to additional jobs in Frankfurt. This is because the German financial centre, as the location of corporate headquarters and in its role as the capital of European regulation and supervision, is more strongly affected than other locations.

Mood in Frankfurt's bank towers subdued

Aggregate results of IHK survey — % yoy

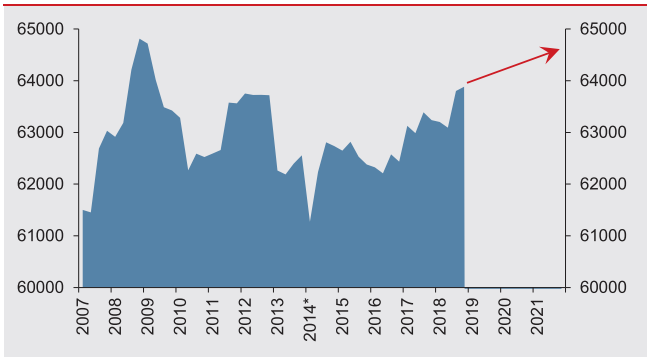


* statistical break

Sources: IHK Frankfurt, Federal Employment Agency, Helaba Research

Brexit drives more bankers to Frankfurt

Bank employees within city limits



* statistical break

Sources: Federal Employment Agency, Helaba Research

64,500 bank employees in Frankfurt at end of 2021

On the whole, consolidation in the banking industry is likely to be more pronounced in the years ahead than we expected a year ago. Nevertheless, the number of bank employees in Frankfurt should still increase in our forecasting period to the end of 2021. With respect to job creation in Frankfurt at international banks from London, our expectations seem to have been borne out. On the other hand, we are now somewhat more cautious about the extent to which German banks will repatriate their London-based staff in the wake of Brexit. All in all, we anticipate a Brexit-related boost to employment of around 3,500 jobs by the end of 2021. In view of the original Brexit date in spring 2019, a proportion of this increase in personnel has probably already taken place – but the corresponding labour market data are not yet available. This process of an expansion in personnel capacities will continue over the next two years. Given the ongoing consolidation, however, the number of bank employees is likely to rise by a total of only around 1 % by the end of 2021 compared with the end of 2018, or by about 600, to 64,500 bank staff. This should represent the high-water mark for bank employment in Frankfurt. However, the more disorderly Britain's withdrawal from the European Union is, the more pronounced the relocation of banks' business from the River Thames to the River Main is likely to be. This would then be accompanied by a corresponding increase in the number of employees in Frankfurt.

Brexit provides opportunity for long-term enhancement of financial centre

Even if Brexit does not happen at all, to a certain extent there would probably be lasting positive effects for Frankfurt. The decisive factor in this regard would be the way in which locational factors in Germany continue to develop. Depending on this, some of these banks will probably remain in Frankfurt, even in a “no-Brexit” scenario, and at least partially implement their European strategies from here in the coming years. In this sense, the debate in the UK over withdrawing from the EU provides the opportunity to strengthen the German financial centre in the long term, regardless of its further development. Yet Frankfurt is more than Brexit and should continually strive to improve its location-specific qualities in order to maintain and expand its strong competitive position in the financial world. ■

Landesbank Hessen-Thüringen Addresses

Head Offices

Frankfurt am Main
Neue Mainzer Strasse 52–58
60311 Frankfurt am Main
Germany
Tel: +49 69/91 32-01

Erfurt
Bonifaciusstrasse 16
99084 Erfurt
Germany
Tel: +49 3 61/2 17-71 00

Bausparkasse

Landesbausparkasse Hessen-Thüringen

Offenbach am Main
Strahlenbergerstrasse 13
63067 Offenbach am Main
Germany
Tel: +49 69/91 32-02

Erfurt
Bonifaciusstrasse 19
99084 Erfurt
Germany
Tel: +49 3 61/2 17-70 07

Development Bank

Wirtschafts- und Infrastrukturbank Hessen
Strahlenbergerstrasse 11
63067 Offenbach
Germany
Tel: +49 69/91 32-03

Branch Offices

Düsseldorf
Uerdinger Strasse 88
40474 Düsseldorf
Germany
Tel: +49 2 11/3 01 74-0

Kassel
Ständeplatz 17
34117 Kassel
Germany
Tel: +49 5 61/7 06-60

London
3rd Floor
95 Queen Victoria Street
London EC4V 4HN
United Kingdom
Tel: +44 20/73 34-45 00

New York
420, Fifth Avenue
New York, N.Y. 10018
USA
Tel: +1 212/7 03-52 00

Paris
4-8 rue Daru
75008 Paris
France
Tel: +33 1/40 67-77 22

Stockholm
Kungsgatan 3, 2nd Floor
111 43 Stockholm
Sweden
Tel: +46/86 11 01 16

Representative Offices

Madrid
(for Spain and Portugal)
General Castaños, 4
Bajo Dcha.
28004 Madrid
Spain
Tel: +34 91/39 11-0 04

Moscow
Novinsky Boulevard 8
Business Centre Lotte,
20th Floor
121099 Moscow
Russia
Tel: +7 495/2 87-03-17

São Paulo
Av. das Nações Unidas,
12399 Cjs. 105 B
Brooklin Novo São Paulo –
SP CEP: 04578-000
Tel: + 55 11 / 3405-3180

Shanghai
Unit 012, 18th Floor
Hang Seng Bank Tower
1000 Lujiazui Ring Road
Shanghai, 200120
China
Tel: +86 21/68 77 77 08

Singapore
One Temasek Avenue
#05 – 04 Millenia Tower Singapore, 039192
Tel: + 65 / 62 38 04 00

Sales Offices

Berlin
Joachimsthaler Strasse 12
10719 Berlin
Germany
Tel: +49 30/2 06 18 79-13 52

München
Lenbachplatz 2a
80333 Munich
Germany
Tel: +49 89/5 99 88 49-16

Münster
Regina-Protmann-Strasse 16
48159 Münster
Germany
Tel: +49 2 51/92 77 63-01

Stuttgart
Theodor-Heuss-Strasse 11
70174 Stuttgart
Germany
Tel: +49 7 11/2 80 40 4-0

Real Estate Offices

Berlin
Joachimsthaler Straße 12
10719 Berlin
Germany
Tel: +49 30/2 06 18 79-13 14

Munich
Lenbachplatz 2a
80333 Munich
Germany
Tel: +49 89/5 99 88 49-0

Selected Subsidiaries

Frankfurter Sparkasse
Neue Mainzer Strasse 47–53
60311 Frankfurt am Main
Germany
Tel: +49 69/26 41-0

1822direkt Gesellschaft der Frankfurter Sparkasse mbH
Borsigallee 19
60388 Frankfurt am Main
Germany
info@1822direkt.com
Tel: +49 69/9 41 70-0

Frankfurter Bankgesellschaft (Deutschland) AG
JUNGHOF
Junghofstrasse 26
60311 Frankfurt am Main
Germany
Tel: +49 69/1 56 86-0

Frankfurter Bankgesellschaft (Schweiz) AG
Börsenstrasse 16
8001 Zürich
Switzerland
Tel: +41 44/2 65 44 44

Selected Subsidiaries

Helaba Invest
Kapitalanlagegesellschaft mbH
JUNGHOF
Junghofstrasse 24
60311 Frankfurt am Main
Germany
Tel: +49 69/2 99 70-0

GWH
Wohnungsgesellschaft mbH
Hessen
Westerbachstrasse 33
60489 Frankfurt am Main
Germany
Tel: +49 69/9 75 51-0

OFB
Projektentwicklung GmbH
Speicherstrasse 55
60327 Frankfurt am Main
Germany
Tel: +49 69/9 17 32-01

GGM
Gesellschaft für Gebäude-Management mbH
Speicherstrasse 55
60327 Frankfurt
Germany
Tel: +49 69/9 17 32-9 00

Helaba
Landesbank Hessen-Thüringen

Neue Mainzer Strasse 52 – 58
60311 Frankfurt am Main
Germany
T +49 69/91 32-01

Bonifaciusstrasse 16
99084 Erfurt
Germany
T +49 3 61/2 17-71 00

www.helaba.com