



CHIEF ECONOMIST'S COMMENT

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The growing popularity of Frankfurt as a financial centre

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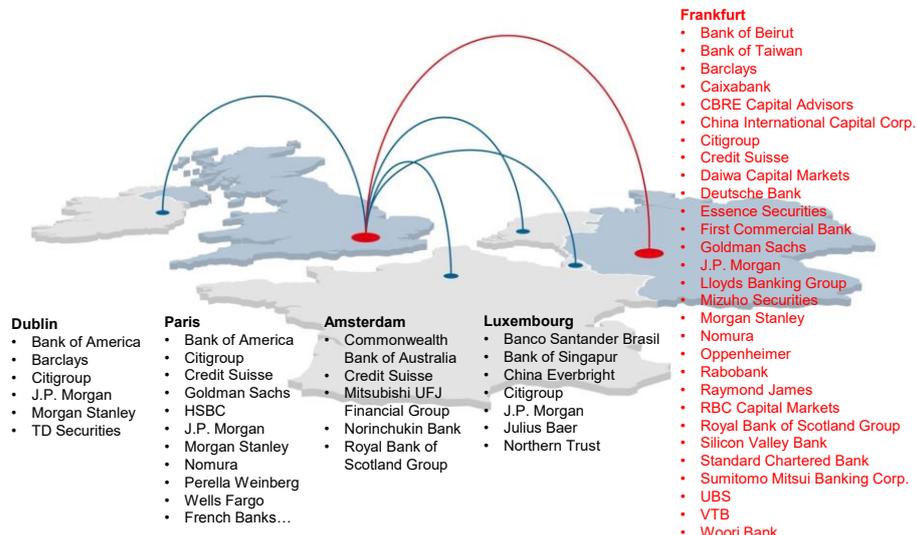
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The fog may still have not lifted on Brexit, but Frankfurt's role as the favourite destination for London's banks has been clear for some time.

The precise details of Britain's withdrawal from the EU remain unclear. For London's banks, though, the time for action has arrived. Their preparations to establish themselves in another European financial centre, in addition to the British one, in order to remain in a position to conduct business seamlessly for their customers in the EU, are becoming increasingly concrete. The German financial centre remains the undisputed favourite in this respect. Accordingly, three weeks before the scheduled departure date it is becoming more and more obvious, in which office buildings Brexit banks are setting up or expanding their operations. Furthermore, deployment of staffing capacities is well underway; in some cases, this relates to former London employees and, in others, to locally recruited personnel.

Since the British referendum in mid-2016, we have placed the impact of Brexit on European financial centres at the heart of our financial centre research and sketched out our Brexit map to visualise business relocations from London to other major banking centres in Europe. The term Brexit banks is primarily understood to mean institutions that have to adapt their European business structure due to the imminent abolition of the EU passport in the United Kingdom and require a corresponding licence in another EU member state. In addition to this, there are some credit institutions that simply want to open a new office so that they can be part of the growing clusters at these locations, due to the greater appeal of other financial centres, such as Frankfurt, as a result of Brexit. We also count among Brexit banks 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 one we have been using for many years as a basis for our employment forecast. According to this definition, how many banks have already officially announced that they will shift business to Frankfurt or set up a new office here?

Helaba's Brexit map: relocation decisions by banks*



* expansion of existing or establishment of new offices (as of: end of January 2019)

Sources: Press, Helaba Research

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The Brexit Map is changing rapidly: when Helaba's previous financial centre study was published in autumn 2018, 25 Brexit banks had chosen Frankfurt as their preferred destination. At the end of January 2019, Helaba's Brexit Map counted 29 banks for Frankfurt, only one of which is of domestic (German) origin. What is more, the list of banks favouring Frankfurt would be even longer because it also includes for example one well-known institution among the numerous foreign banks that has effectively set itself up "twice" in the city on the Main river (with two licenses for different business units). Besides that, it is likely that some banks are still in talks with the local supervisory authorities in addition to office space providers but have not yet made their choice of location official.

The ranking of European financial centres in terms of their popularity among foreign banks remains unambiguous and fairly stable: Frankfurt is followed – some distance behind – by Paris (ten), then Luxembourg (seven), Dublin (six) and Amsterdam (five). Since the Brexit vote in mid-2016, Frankfurt has gained significantly in international prestige and is becoming more and more popular.

Even in those early days, we already issued a forecast about the effects of the restructuring process on European financial centres. This rough estimate, which is ultimately predicated on an agreement being reached in the Brexit negotiations, is still valid: thanks to its role as the favourite, Frankfurt is likely to attract around half of all jobs created in other financial centres as a result of Brexit. This process, which will stretch over several years and involve the creation and expansion of at least 8,000 financial sector jobs in Frankfurt, got underway last summer.

At the same time, the demands posed by digitalisation and regulation are increasing the workload of banks and supervisory authorities in Germany, which is primarily reflected in Frankfurt as a hub of European supervision. However, consolidation in the German banking sector is also likely to continue over the course of this year. By the end of 2020 the Brexit effect should have a clearly positive impact on employment levels here and, ultimately, more than offset any staff cutbacks due to consolidation. This means that Frankfurt can expect to see a total of around 65,000 bank employees. Compared with the last available data of almost 63,100 employees as of mid-2018, this would represent an increase of around 3 % or a rise in employment of approximately 1,900 bankers. In the medium term, it can be assumed that Brexit banks will make readjustments to their personnel capacities and that there will be additional growth on Frankfurt's labour market. This represents both an opportunity and a challenge.

While the situation on the housing market is already tense, the Frankfurt office market is in good shape three weeks before the official Brexit date. Office rents in central locations rose sharply last year and the vacancy rate of less than 8 % is the lowest in 15 years. However, the main impulses from Brexit-related relocations have probably not yet had any effect at all. In the ten years before Brexit alone, the number of employees subject to social security contributions in the city rose by almost 100,000 – about half of which are likely to have taken up an office job. A large part of the vacancies in Frankfurt do not concern central locations or modern office space, which are preferred by Brexit banks. The fact that, in spite of this, there will be no real shortage of space on the office market is primarily due to several major project developments that will boost the supply of available space over the next few years.

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