UNDER PRESSURE #2

BREXIT

WHAT WILL ITS IMPACT BE ON THE EUROPEAN REAL ESTATE MARKETS?

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UNDER PRESSURE #2

« Prepared for the worst, hoping for the best »

In the previous edition of our Brexit study, we reported on the events that took place between the referendum of 23 June 2016 and the end of the summer of 2018. Since then, British politicians have twice rejected the withdrawal agreement endorsed by Theresa May and the European Union in November, and on 14 March they voted in favour of postponing the United Kingdom's exit date. These various events have not solved anything. Whilst there are still many possible outcomes[1], **the possibility of a no deal exit is increasingly present in the minds of British and European leaders**. This has also been a major concern for many months now for the increasing number of companies operating in the United Kingdom that are taking action by transferring capital and jobs to various EU countries. Although there is no evidence to date of a mass exodus, Knight Frank's survey confirms the increase in these Brexit-related moves. The acceleration is indeed quite clear: **with 349 projects and potential projects, their number doubled between 2017 and 2018, while nearly fifty moves have already been recorded since the beginning of 2019**.

Finance still constitutes the vast majority of identified projects. The reason for this is the expected loss of the European passport, which is currently used by nearly 5,500 companies, including a number of non-British companies that use London as their gateway to the EU. In other areas governed by EU law, such as the audio-visual and pharmaceutical sectors, some companies are also opening offices in one of the 27 Member States or may at least consider it. However, the regulatory aspect is not the only issue at stake with Brexit. It also raises the question of the ability of companies to attract a highly skilled and hyper-mobile workforce, on which their success and degree of innovation depend. **The subject of talent attraction and retention is a key issue not only for companies in high value-added sectors, but also for London and the Union's candidate cities** that are hoping to attract companies. These cities are all showcasing their strengths, from the dynamism of their economies to the flexibility of their fiscal frameworks and the quality of life offered to their residents.

Six months after our previous study, **Dublin remains at the forefront of this race for company implantations**, far ahead of Luxembourg, Paris, Amsterdam and Frankfurt. This Top 5 of Brexit-related moves has changed little, although Amsterdam's breakthrough is quite remarkable, having caught up with Paris and overtaken Frankfurt. That being said, **the analysis of employment gains for each city shows a tighter ranking**. In spite of a lack of visibility, all the more so as estimates continue to fluctuate, the number of staff concerned remains fairly modest, confirming that Brexit has so far created only a limited number of jobs within the EU and let to relatively few financial job losses in London. However, these moves, which are likely to accelerate depending on the outcome reached by British and European leaders, will have an impact on the economies and real estate markets of the various EU cities, as well as on their relations with London.

This complex and fascinating subject is the focus of this new study, written by Knight Frank in collaboration with their international research teams.

[1] Study completed on 15 March 2019.

GO YOUR OWN WAY

TIMELINE OF A PLANNED BREAK-UP

2016

June 23

British voters ended, by 51.9%, 43 years of European Union membership.

July 13

Theresa May replaced David Cameron at 10 Downing Street. She is now responsible for implementing the referendum.

July 27

Jean-Claude Junker, President of the European Commission, put the Frenchman Michel Barnier in charge of negotiations with the UK, pursuant to article 50 of the Lisbon Treaty on the EU.

2017

March 29

Article 50 of the Treaty on the EU was invoked, and the UK exit process officially began.

April 29

At a special summit, EU leaders showed their unity by unanimously adopting broad guidelines to be used during negotiations with the UK.

June 8

In early legislative elections in the UK, the Conservatives lost their absolute majority, weakening Theresa May's position a few days before the start of official negotiations with the EU, against a backdrop of increasing dissension between *hard* and *soft Brexit* supporters.

December 8

First agreement between the UK and the EU on the terms of the divorce (final settlement paid by London, preservation of the rights of British and European citizens, etc.). Phase II of the negotiations began.

2018

March 19

In order to avoid the consequences of a sudden break-up, the UK and the EU agreed on the terms of a non-renewable post-Brexit transition period, which will last until 31st December 2020.

July 12

The white paper published by the British government, setting out its plans for the post-Brexit period, is a failure. It is coldly received by the EU and also provokes displeasure in the City, as the paper waives the UK's right to benefit from a financial passport.

September 20

During the Salzburg summit, the EU rejected the British plan (known as "Chequers") that they consider to be incompatible with the integrity of the single market.

November 13-15

Theresa May and the EU reach a compromise. Among the major breakthroughs is the possibility of a backstop that would prevent the return of a physical border between Ireland and Northern Ireland, by keeping the United Kingdom in the European Customs Union. The British government validates the agreement, but several Ministers and Secretaries of State resign.

November 25

Theresa May and the Heads of State and Government of the 27 EU countries ratify an exit agreement, accompanied by a text outlining the future relationship between the EU and the United Kingdom.

December 10-13

Having postponed the British Parliament's vote on the exit agreement, Theresa May survived the vote of confidence organised against her government by Conservative MPs.

2019

January 15

The British Parliament rejects the withdrawal agreement. The next day Theresa May won a new vote of confidence, this time organised by the leader of the Labour opposition.

February 26

In a speech to the House of Commons, Theresa May paved the way for Parliament to postpone the Brexit date for the first time.

March 12

The British Parliament rejects for the second time the agreement negotiated by Theresa May, who nevertheless rules out resigning. For Michel Barnier, the preparations for a no-deal scenario are "*now more important than ever*".

March 13

British MPs reject the option of leaving without an agreement with the European Union. Theresa May immediately announced her intention to resubmit her withdrawal agreement to Parliament, which it will have to decide upon by 20 March.

March 14

British MPs vote in favour of postponing the date of the United Kingdom's exit from the European Union, initially set for 29 March 2019. This delay will have to be submitted to the unanimous approval of the 27 member countries.

May 23-26

The citizens of the 27 Member States elect their representatives to the European Parliament.

?

DON'T STOP ME NOW

ANALYSIS OF BREXIT-RELATED MOVES

Knight Frank has identified 349 Brexit-related moves within the European Union (EU), in some 30 cities and almost 20 countries. The chronological distribution of these moves, whether they are potential projects or actual relocations, shows a clear and **gradual acceleration since the referendum of 23 June 2016**. Indeed, more and more companies are being forced to anticipate the consequences of Brexit in order to maintain business relationships with their European clients.

A SURGE THAT NEEDS TO BE PUT INTO PERSPECTIVE

Following the seven moves in 2016, 97 were recorded in Europe in 2017. **In 2018, this number almost doubled, with 199 last year.** As of mid-March, our survey has already recorded 46 moves in 2019. The pace is therefore high and could further accelerate since Brexit-related moves are unlikely to stop after the United Kingdoms exit date, or even after the end of a possible transition period. Indeed, the consequences of Brexit on the economy and the various aspects of the relationship between the United Kingdom and the EU (political, regulatory, etc.) will be far-reaching. It is therefore only over a long period time that its full impact will really be felt. In mid-February, for example, the New York Times reported that American banks had so far relocated less than a thousand of their London employees, but that 5,000 of them could eventually leave the British capital over the long-term in a worst case scenario[1].

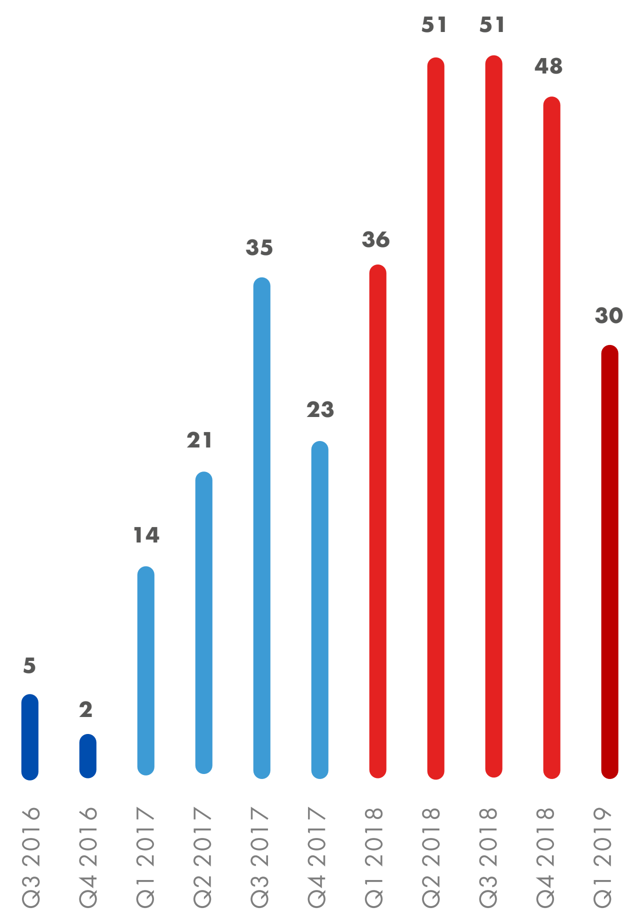
The potential for relocations and job gains connected to Brexit is so difficult to assess because many companies have not yet finalised their plans, obtained approval from local regulators or even sometimes decided on a definitive strategy. **This lack of visibility is all the more acute as estimates continue to fluctuate greatly**. At the beginning of 2017, for example, UBS announced that some 1,000 of its UK employees could be affected by Brexit, mainly to the benefit of Frankfurt. A few months later, the bank mentioned only 200 positions, then approximately 60 at the end of 2018. Two years ago, HSBC indicated that Paris, chosen as its future European head office, could gain a thousand employees. However, only about a hundred people have so far joined the bank's staff in France, depriving the capital of what was supposed to be its largest contingent of Brexit "repatriates".

On the other hand, other companies are moving forward with more certainty. This is the case with Bank of America, who began to move into part of their 10,000 sq m leased premises at 49-51 rue La Boétie in Paris at the end of 2017. They have also dispersed their staff across other European cities such as Dublin and Frankfurt. The estimated cost of these relocation operations? Some 400 million dollars for a movement that Anne Finucane, vice-president of the bank, acknowledged is irreversible.

> "Even if there were no Brexit, that has happened, there isn't a return there. The bridge has been pulled up on that".
>
> **Anne Finucane,**
> **Vice-President of Bank of America**

While the cost is considerable, the staff involved remains relatively small compared to the 4,500 people employed by Bank of America in the United Kingdom, confirming that Brexit has so far created only a limited number of jobs within the EU, and let to relatively few financial job losses in London. Moreover, it is for the size of the transferred assets rather than the number of relocated staff that several moves have recently attracted attention. As a result, while most of the identified projects involve no more than 20 employees, capital flows can be huge, such as the 190 billion euros transferred to Dublin by Barclays.

QUARTERLY CHANGE IN THE NUMBER OF BREXIT-RELATED MOVES
SOURCE: KNIGHT FRANK, DEFINITE AND POTENTIAL PROJECTS OR ACTUAL RELOCATIONS. CENSUS AS AT 15 MARCH 2019.



[1] New York Times, *For Wall Street banks in London, it's moving time*, 17 february 2019.

Other factors put the consequences of Brexit into perspective. **Whilst not negligible, Brexit is certainly not the most important driver of change in the financial sector**, which is above all the subject of major streamlining and cost reduction measures. Implemented long before the result of the June 2016 referendum, these restructuring programmes have been gaining momentum. When presenting its latest annual results, BNP Paribas, for example, indicated that it wanted to achieve €3.3 billion in recurring savings from 2020, 600 million more than initially planned[2]. While BNP's cuts are partly due to a less favourable market outlook, which is part due to Brexit and the possibility of a "no deal", they are mainly in response to structural changes in the banking sector. Indeed, while banks are still using traditional streamlining methods (reducing real estate costs, pooling support functions, etc.), they are also increasingly resorting to automation and artificial intelligence: new tools that make it possible both to be more profitable and to digitalise the client experience, accompanied sometimes by large staff reductions. Wells Fargo's costs are thus expected to decrease by 5% to 10% over the next three years.

> "Given changing customer preferences, including the accelerating adoption of digital self-service capabilities, the focus on operational excellence, and ongoing commitment to efficiency, the company expects headcount to decline by approximately 5 to 10 percent within the next three years. This decline would reflect displacements as well as normal team member attrition over that period"[3].
>
> **Wells Fargo**

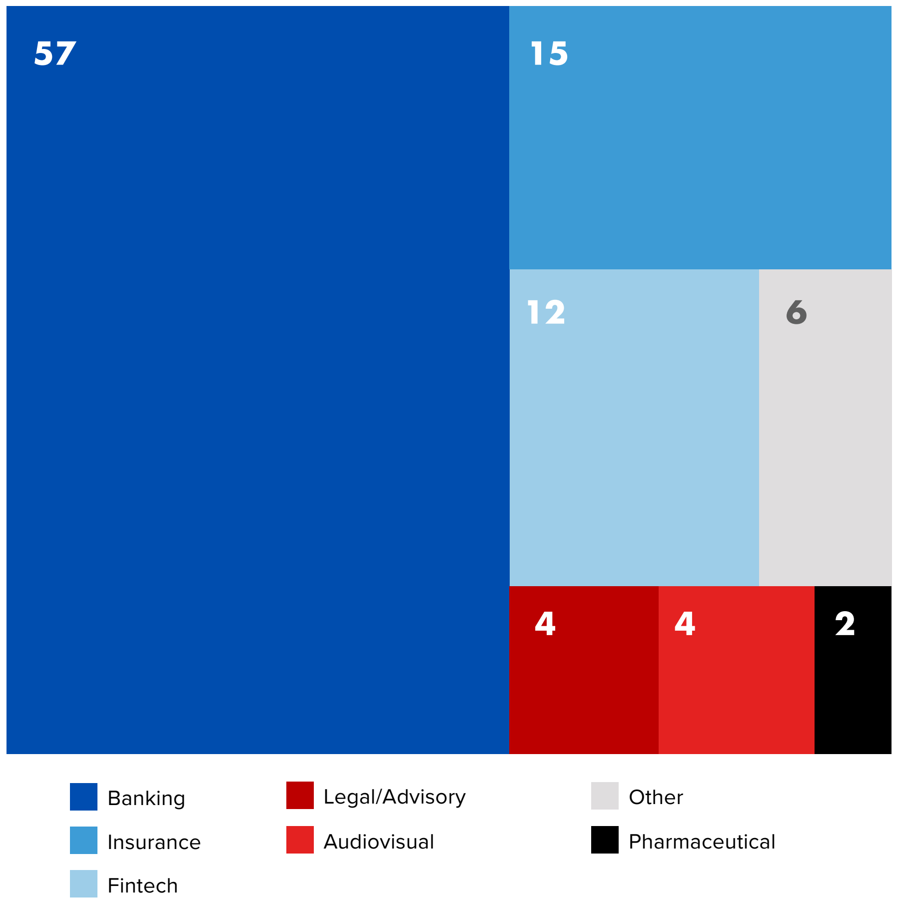
[2] BNP Paribas, 2018 Annual Results.
[3] Wells Fargo, press release, 20 September 2018.

FINANCE AT THE FOREFRONT

The subject of finance is the focus of most articles and comments on Brexit. This almost exclusive attention is not the result of an ideological or editorial choice but is due to a very concrete fact: **the vast majority of Brexit-related relocations have been initiated by financial firms**. Our study confirms this: of the 349 potential or definite projects recorded since the referendum, 69% involve companies in this sector. However, finance is not the only area affected by the British decision to leave the European Union. Many other British and European sectors of the economy and companies are also affected, such as fisheries and agriculture, transport and manufacturing. The latest plant closure or relocation announcements have put the automotive industry in the spotlight, making it possible to appreciate the infinite complexity of Brexit (customs duties, logistics, etc.) and its consequences on the United Kingdom's job market, as well as on its links with some major trading partners such as Japan.

Whilst finance is currently the main focus of attention, this is because it is undoubtedly easier to move office assets and jobs than factories, but also because companies in this sector are subject to significant regulatory constraints. **With the exit from the European Union, thousands of companies based in the United Kingdom, including many American and Asian companies, will no longer benefit from the European passport**. To continue their activity throughout the Union, they must therefore establish a truly capitalised subsidiary with a sufficient number of employees, as Joachim Wuermeling, a member of the Executive Board of the Deutsche Bundesbank, pointed out a few weeks ago.

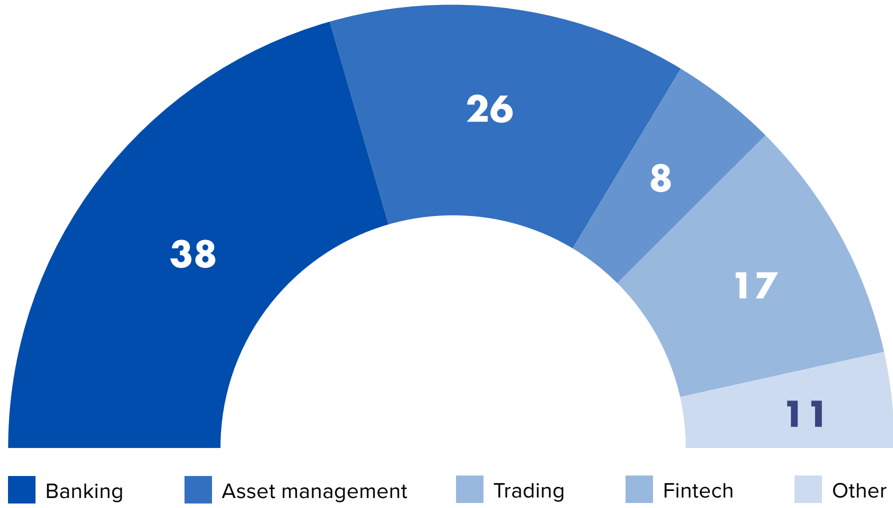
BREAKDOWN OF BREXIT-RELATED MOVES BY ACTIVITY SOURCE: KNIGHT FRANK, DEFINITE AND POTENTIAL PROJECTS OR ACTUAL RELOCATIONS. CENSUS AS AT 15 MARCH 2019.



> "Not all SSM banks are currently fully compliant with the SSM's respective supervisory expectations. In particular, all banks must ensure that they have relocated sufficient staff to the EU27 entities. EU business must be booked from within the EU27. This will require significant asset transfers in several cases. Sufficient trading and risk-management staff as well as technical infrastructure are needed on site at the EU27 entities to ensure adequate risk management".
>
> **Joachim Wuermeling, German Federal Bank Executive Board Member**

These activities are not limited to banking, but cover all areas governed by the European passport (deposit collection, derivatives trading, credit or bond issuance, portfolio management, insurance and real estate brokerage, etc.). Indeed, while banking activities are the most represented, our inventory of Brexit-related moves clearly shows that the entire financial landscape is in the process of being restructured. More than a hundred relocation projects concern insurers or asset management companies, while some 90 moves are covered by Fintechs and other types of financial services (rating agencies, clearing houses, etc.).

BREAKDOWN OF BREXIT-RELATED MOVES IN THE FINANCIAL SECTOR
SOURCE: KNIGHT FRANK, DEFINITE AND POTENTIAL PROJECTS OR ACTUAL RELOCATIONS. CENSUS AS AT 15 MARCH 2019.



The geographic distribution of these various activities shows the specific nature of some of Europe's major financial centres. The trend is quite pronounced in Frankfurt, where 80% of Brexit-related moves are in the banking sector. As the headquarters of the European Central Bank (ECB), the city is thus asserting itself as a natural destination for the world's largest banks, most of which already have offices there. On the other hand, Frankfurt seems to be lagging behind in other areas, such as fintech and insurance. Other cities have a much more varied profile: while asset managers and insurers account for more than half of the moves recorded in Dublin and Luxembourg, these two cities have also attracted several banks, fintechs and rating agencies. Amsterdam's profile is more unusual. Although it can boast of some notable arrivals from European (RBS), American (Cboe Global Markets) and Asian (Mizuho) banks and financial companies, the city has built its success on its ability to attract those from outside the financial world. Amsterdam in particular has taken the lion's share of company moves in the pharmaceutical and audio-visual sectors.

A QUESTION OF REGULATION AND TALENT: FOCUS ON THE AUDIO-VISUAL SECTOR

Audio-visual companies employ more than 200,000 people in the United Kingdom, illustrating the importance of the sector within the national economy. The companies located in the UK thus contribute almost 30% of the revenues of the top 100 audio-visual companies in the EU 28. These companies include several European subsidiaries of North American chains (Discovery Networks, Fox, Turner, etc.), with the UK audio-visual market having particularly benefited from the growth of video-on-demand (VOD) services. Its television and film industry also receives significant funding from the European Union.

Presently, broadcasters and VOD services based in the UK can operate across the EU, thanks to mutual recognition of licences through the Audio-visual Media Services Directive

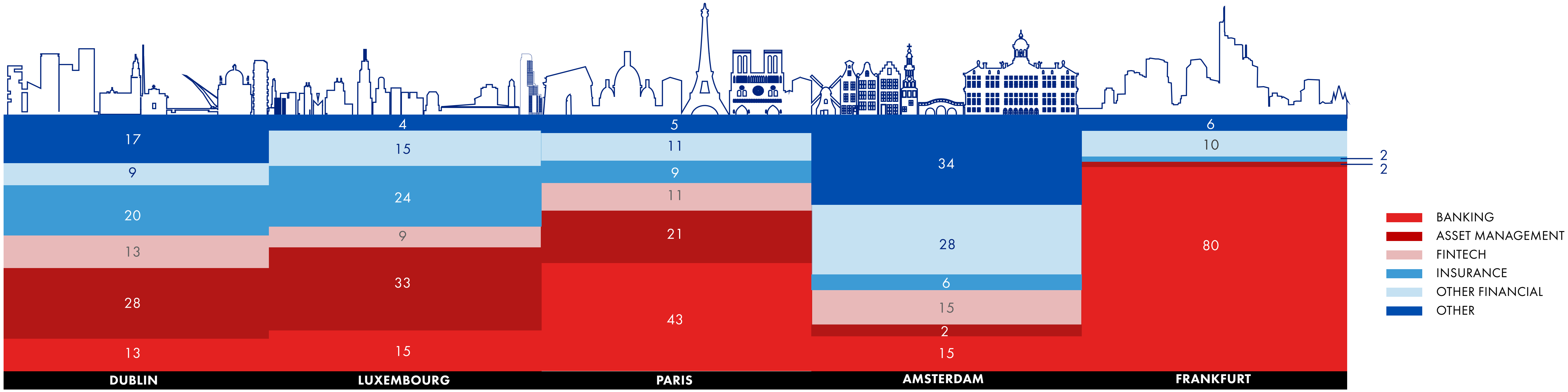
("AVMS"[4]). **If there is a 'no deal' Brexit, or the future trade arrangement does not continue this system, UK-based firms will no longer be able to use AVMS to access the EU market**. Broadcasters can still rely on another international treaty, whereby 20 EU states would still recognise British licences; although this agreement does not cover VOD services.

A broadcaster wishing to operate in all the 27 EU nations, or a VOD service, could post-Brexit need to apply for a licence from an EU state. To achieve this, it must meet one of three criteria, by locating in an EU nation either: its head office, or the majority of its staff, or a satellite uplink. The BBC, for instance, is examining setting up a subsidiary company in an EU country, through which it will then apply for a licence for its European broadcasting service. Several large American companies have also applied for licences, including Turner Broadcasting System and NBC Universal in Germany, and Viacom and Discovery in the Netherlands.

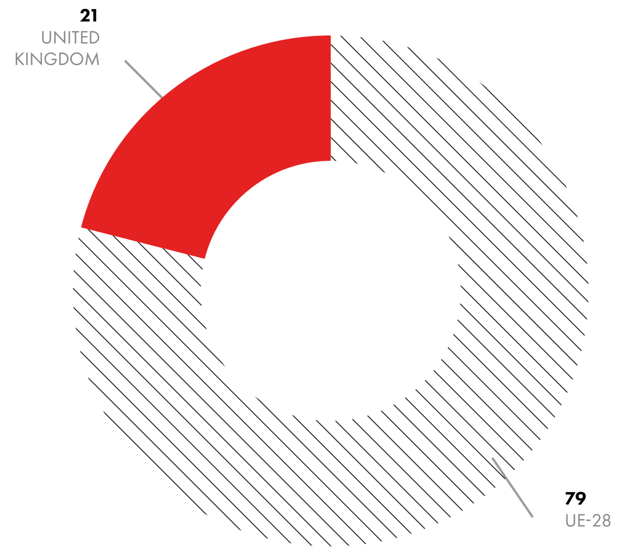
However, the challenge with Brexit does not just concern changing the regulations for cross-Channel based audio-visual companies. Their activity is highly competitive and depends on a highly skilled and mobile workforce, which must also be able to mobilise without delay because productions, mainly European and American, often take place in a short time frame. Brexit and possible restrictions on the movement of workers and labour law (migration quotas, visa fees, etc.) therefore raise the question of London's ability to continue to attract the best global talent. The challenge is all the more significant as audio-visual activities employ a significant proportion of international employees, with nearly 30% of London's workforce in this sector born outside the United Kingdom[5]. This shows that the topic is as crucial to the audio-visual sector as it is for other sectors such as fintech, whose success and degree of innovation depend largely on its ability to attract a flexible and ultra-mobile work force.

[4] Source: European Audiovisual Observatory, *Brexit: The impact on the audiovisual sector*, 2018.
[5] Source: *Greater London Authority, London's creative industries – 2017 update*, Working Paper 89, july 2017.

BREAKDOWN OF BREXIT-RELATED MOVES BY ACTIVITY AND CITY
SOURCE: KNIGHT FRANK, DEFINITE AND POTENTIAL PROJECTS OR ACTUAL RELOCATIONS. CENSUS AS AT 15 MARCH 2019.



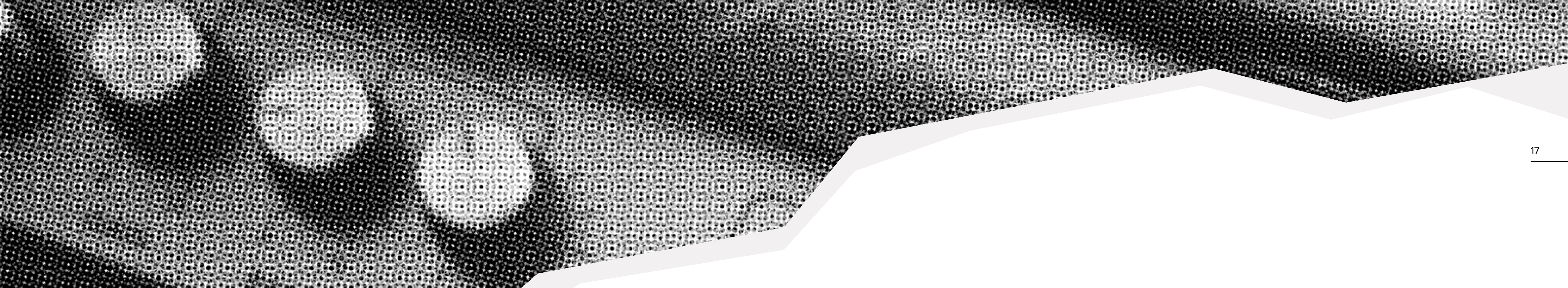
AUDIOVISUAL MARKET OF THE EU-28
SHARE IN % (2016 TURNOVER, IN BILLION EUROS)



NUMBER OF ON DEMAND SERVICES ESTABLISHED IN THE EU-28 SHARE IN %
(NUMBER AT THE END OF 2017)

NUMBER OF TELEVISION CHANNELS ESTABLISHED IN THE EU-28 SHARE IN %
(NUMBER AT THE END OF 2017)

SOURCE: EUROPEAN AUDIO-VISUAL OBSERVATORY



HERE, THERE & EVERY WHERE

WHERE DO BREXIT'S "EXILES" GO?

In the previous edition of our Brexit study, we disproved the idea that a significant weakening was occuring for the London office market. Six months later, the market continues to perform well, although the lack of visibility due to the state of negotiations between the United Kingdom and the EU27 inevitably limits the scope of our analysis. **What is certain is that the geography of the European financial system is shifting, to the benefit of several major cities rather than to the benefit of a single city other than London.**

GENERAL TRENDS

Another key issue that explains the relative spread of Brexit-related moves is the determination of banks to no longer put all their eggs in one basket and to take advantage of the specific welcome conditions and skills offered in other major European cities. Of the 349 definite or potential Brexit-related moves identified by Knight Frank, nearly 20% concern banks that have opted for several different locations, such as Citigroup, Bank of America, JP Morgan and Credit Suisse.

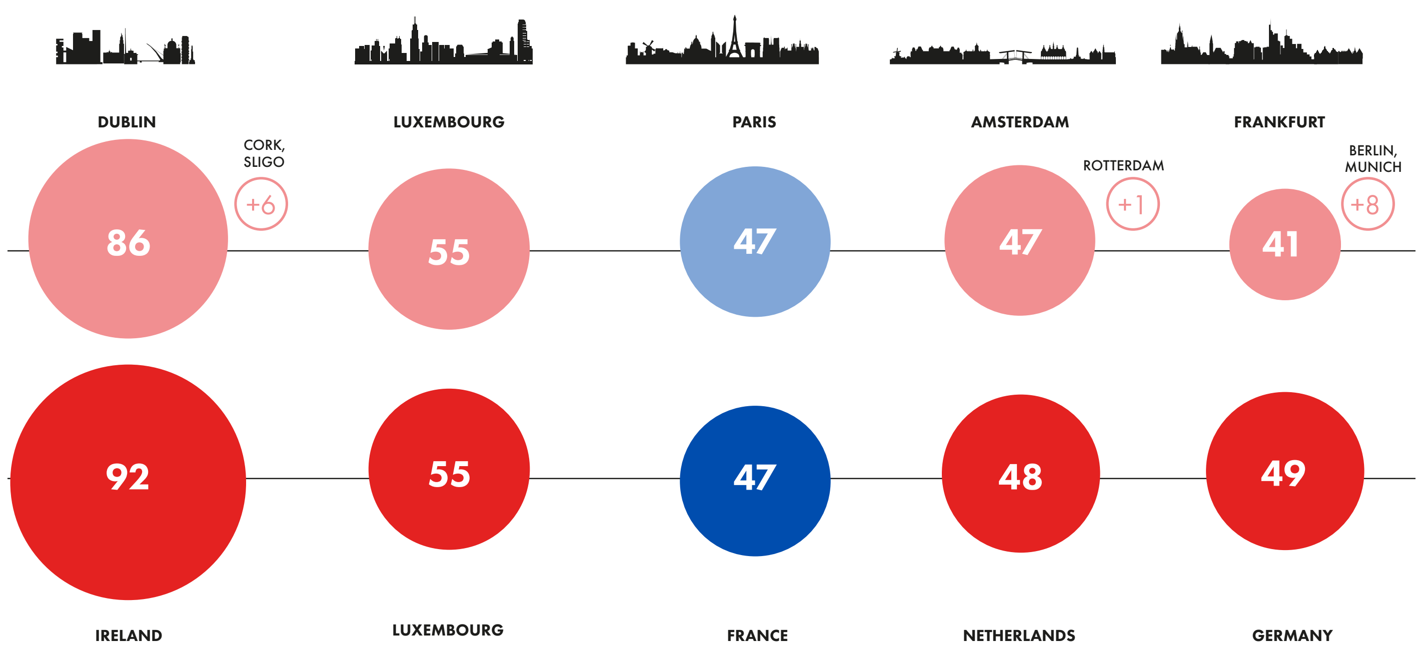
> « Over the past decade, banks have been concentrating their European businesses in London, but that's over. The political instability in the UK has shown us the dangers of putting all our eggs in one basket. We have passed Peak City. »[1]
>
> **Manager of a London-based bank**

Dublin, Luxembourg, Paris, Amsterdam and Frankfurt are the main beneficiaries of Brexit, although other cities have also been able to attract companies (Brussels, Madrid, Berlin, Milan, Vilnius, etc.). While this Top 5 has changed little in six months, it is nevertheless worth noting **Amsterdam's clear rise, which has gradually caught up with Paris and has now overtaken Frankfurt**. Moreover, while Dublin still enjoys a comfortable lead in terms of the number of moves, the analysis of job gains for each city shows a much tighter ranking. **Our preliminary estimates for Dublin, Paris, Frankfurt and Amsterdam range from 1,500 to 2,000 potential job gains for each of these cities**, consisting of a mix of positions transferred from London to local recruitment for newly created jobs.Only Luxembourg is in decline due to moves generally involving fewer than 20 people.

[1] Evening Standard, 29 January 2019.

NUMBER OF BREXIT-RELATED MOVES BY CITY/COUNTRY

SOURCE: KNIGHT FRANK, DEFINITE AND POTENTIAL PROJECTS OR ACTUAL RELOCATIONS. CENSUS AS AT 15 MARCH 2019.



FOCUS ON...

Dublin

STILL ON TOP

While Dublin was always a contender for attracting Brexit-related business, the global financial centres of Paris and Frankfurt were considered the favourites to land the majority. Therefore, its more than 50% lead ahead of its nearest competitor Luxemburg is certainly a remarkable outcome for the city, while the regional locations of Cork and Sligo also picked-up some new occupiers too.

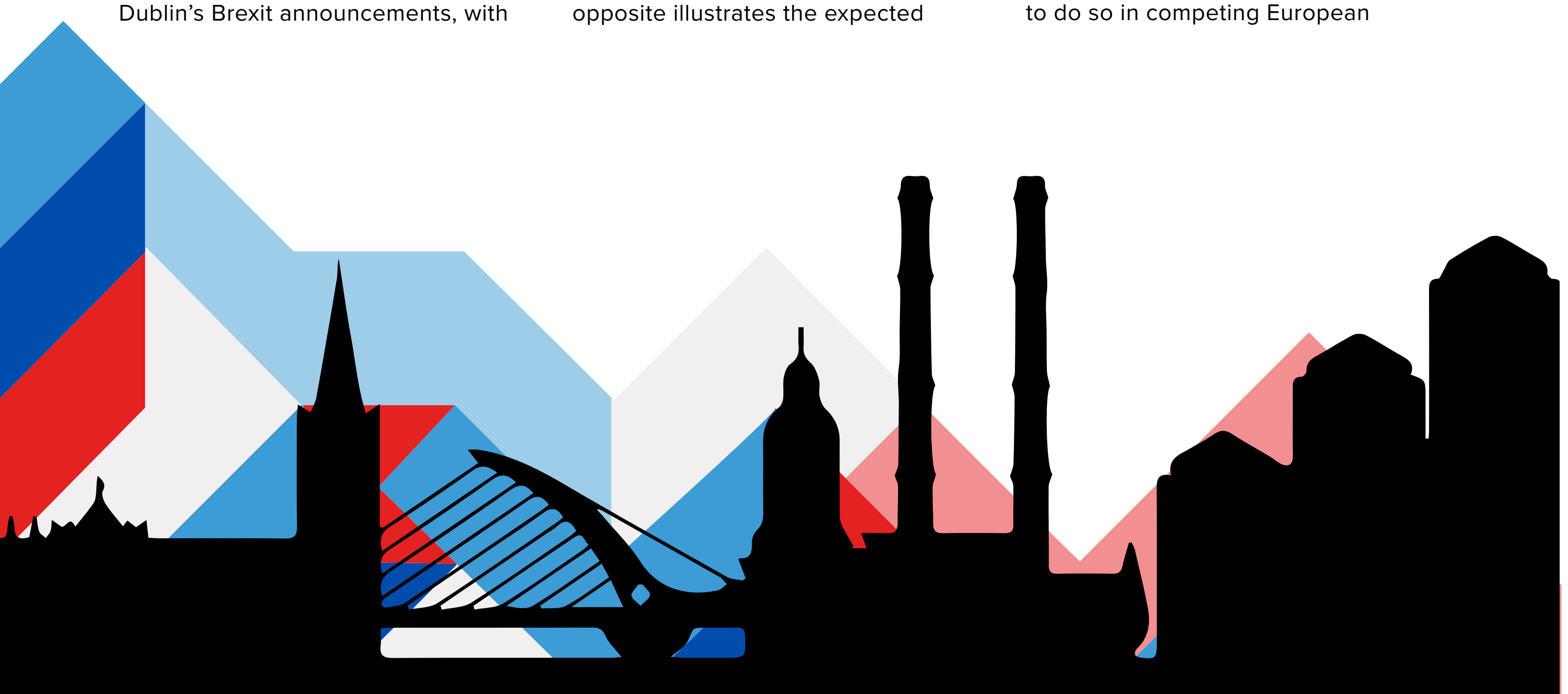
So what accounts for Dublin's outsized share of announcements? Some of the competitive advantages that Dublin holds include having the same common law system as the UK, while providing access to a young, educated and English speaking workforce. Furthermore, as a small open economy, Ireland has benefited from globalisation by attracting a disproportionate share of foreign direct investment, particularly from the United States due to the historical linkages between the two countries. This is also evident in relation to Dublin's Brexit announcements, with North American companies accounting for just under half (45%), a much higher ratio than in other cities (31% in Luxembourg, 30% in Paris).

In many respects, Dublin's ability to attract the highest share of Brexit-related occupiers is a reflection of the wider economic success that Ireland has witnessed in recent years, with 2018 marking the fifth consecutive year **as Europe's fastest growing economy. This has been emulated in Dublin's office market activity, with the 360,000 sq m of take-up achieved last year representing the highest ever level and the sixth consecutive year of expansion**.

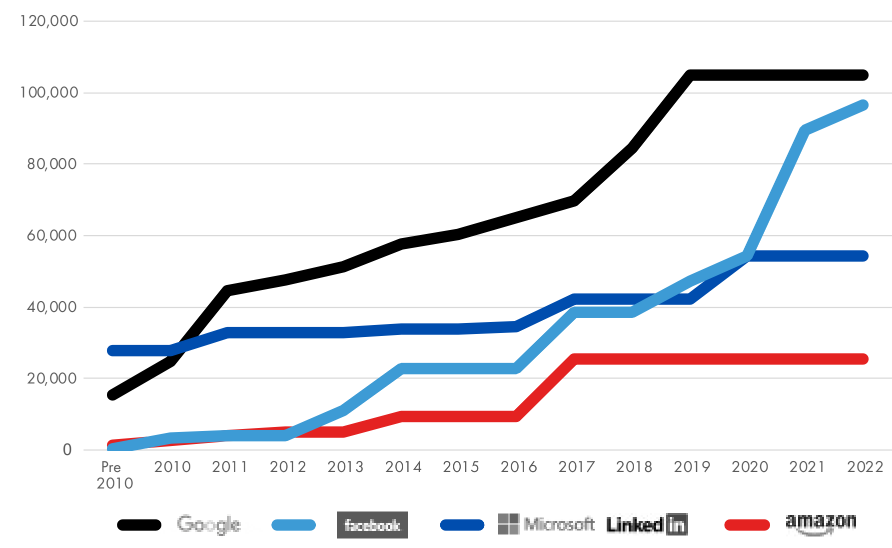
The largest deal of 2018 saw Facebook let over 80,000 sq m for a new and expanded European Headquarters. Google also grew rapidly last year, taking 35,000 sq m across four separate transactions and will occupy over 100,000 sq m in Dublin by the end of 2019. The chart opposite illustrates the expected growth of the footprint of the 'Big Four' tech firms in Dublin based on space that they have already leased. Note that Amazon's footprint is likely to grow further in the coming months as they are believed to be actively seeking to expand also. **Whether these expansions would have happened in the absence of Brexit is hard to tell, but we – as brokers in this space – certainly feel that it has played a role.** These firms draw from a wide pool of talent from across the EU and Dublin's uninterrupted access to this stream of workers is surely a factor that is playing in its favour in the current uncertain Brexit environment.

Thus, although we estimate that just 12,500 sq m of take-up in Dublin so far – excluding the ten companies who have taken-up space at coworking locations – can be directly tied to Brexit announcements, the more important move relates to companies that would have otherwise expanded within the UK but are now choosing to do so in competing European cities such as Dublin. While much of the focus has been on the short-term risk management measures affecting the finance sector – ensuring the continuation of passporting rights for example – the impact that Brexit will have on Europe's location hierarchy accross industries is the secular trend to watch.

Looking at the impact of Brexit on capital markets, the €1.3 billion spent on Dublin offices in 2018 was 46% ahead of the previous year. Dublin accounted for 89% of the total office investment spend in Ireland, illustrating the importance of the capital at a national level. Interestingly, Asian money invested on a significant scale in Dublin offices for the first time last year, with a Hong Kong buyer accounting for the largest deal of 2018 and Korean buyers accounting for the fourth and fifth largest deals. Buyers from Europe and the United States were also active as yields remained stable at 4% throughout the year. Given the proximity to the departure date of the UK, some capital allocations may have been motivated by the hedging quality of the Dublin office market given that the harder the Brexit, the more likely we are to see these announcements translate into jobs on the ground in Dublin.

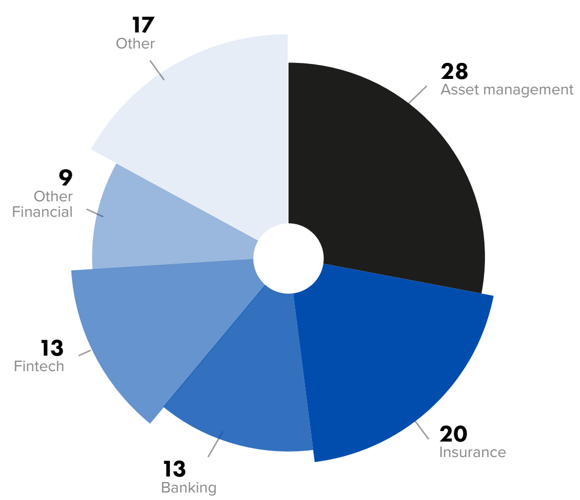


GROWTH OF BIG FOUR TECH FOOTPRINT IN DUBLIN (IN SQ M)
SOURCE: KNIGHT FRANK

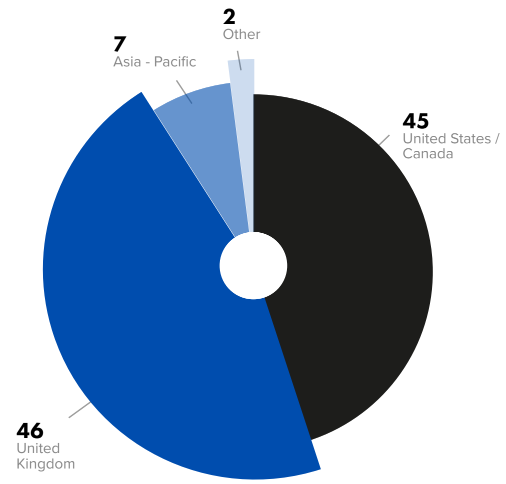


ANALYSIS OF BREXIT-RELATED MOVES IN DUBLIN SOURCE: KNIGHT FRANK. DEFINITE AND POTENTIAL MOVES RECORDED BETWEEN MID-2016 AND 15 MARCH 2019.

BREAKDOWN BY ACTIVITY
IN %



BREAKDOWN BY GEOGRAPHY
IN %



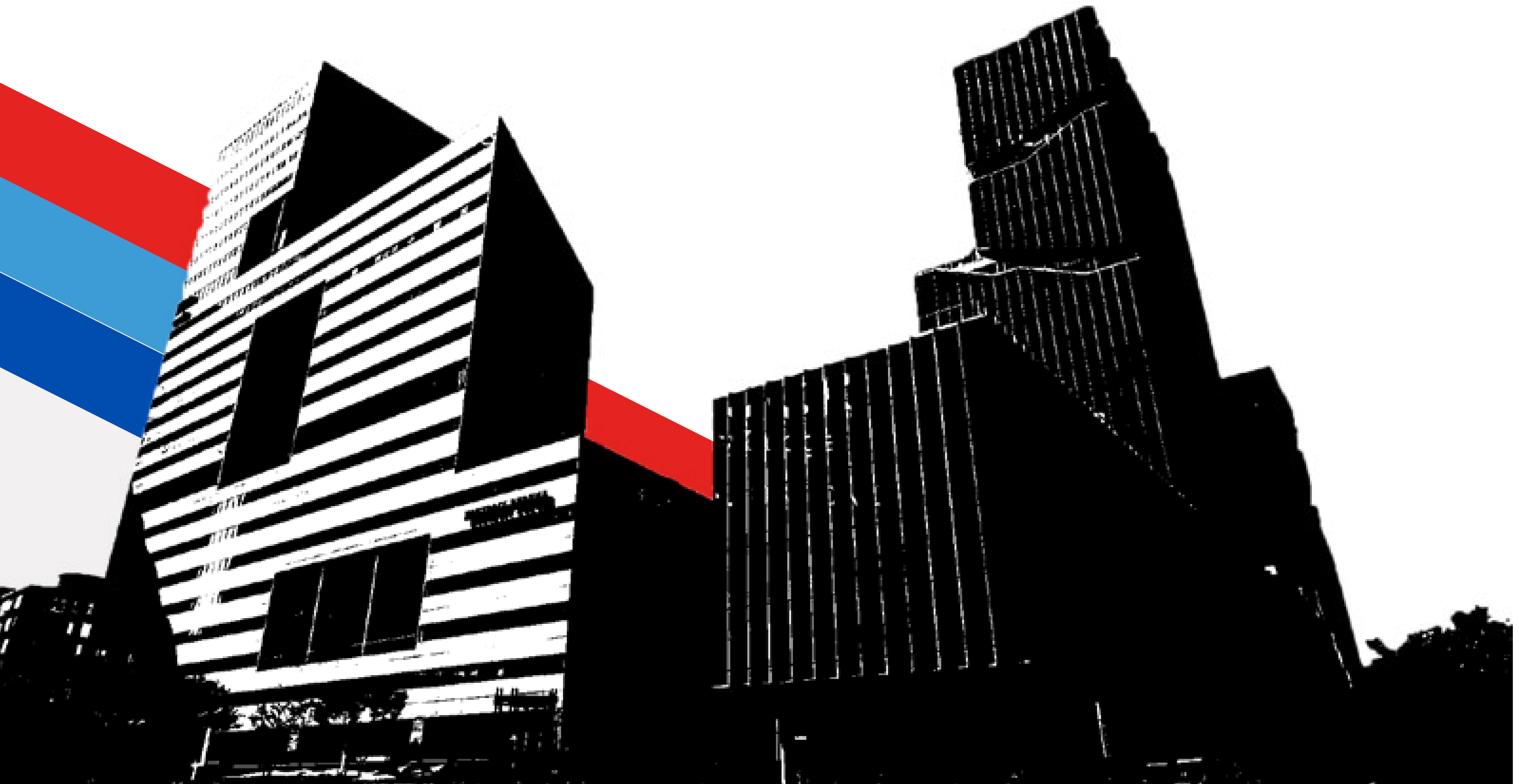
Amsterdam

START ME UP

With 47 relocation projects, including several moves that are already underway, Amsterdam is neck and neck with Paris in the ranking of European cities with the highest number of Brexit-related transfers or job creations. As a sign of its growing appeal, the number of moves to Amsterdam has been increasing since the June 2016 referendum, with 23 projects already recorded in the last nine months, compared to 24 recorded between mid-2016 and mid-2018. Further proof that lobbying in favour of the city is paying off, recent press releases indicate that Brexit is responsible for 2,107 new jobs and will result in nearly 300 million euros of investment[1]. The relocation of the European Medicines Agency (EMA), which employed nearly 900 agents in London, is undoubtedly the most iconic relocation recorded thus far. **In addition to the many positions it involves, this move is also important because it heralds a knock-on effect for the entire pharmaceutical sector**, from the manufacture of medicines to related activities (lawyers, insurers, etc.). As such, several companies in the sector have recently decided to set up in the city or to strengthen their presence there (Norgine, Alnylam, Shionogi, etc.).

Unlike other major European cities that, like Paris and Frankfurt, are mainly targeted by financial activities (86% and 92% respectively), **Amsterdam has built its success on its ability to attract companies from other sectors**. Finance accounts for "only" 60% of the total, with the Netherlands' leading city also being chosen by pharmaceutical companies, audio-visual groups (Discovery Chanel, DAZN, etc.) and Japanese industry leaders such as Sony and Panasonic. Other companies from Japan have also targeted Amsterdam (Mizuho, Norinchukin Bank, Hitachi Capital, etc.), which is why the geographical origin of projects is much more varied than in other cities. Finally, whereas less than a third of the moves recorded in Frankfurt are first locations in the city, this share is more than 50% in Amsterdam: the "Brexit effect" is very clearly reflected in the creation of new business in the city.

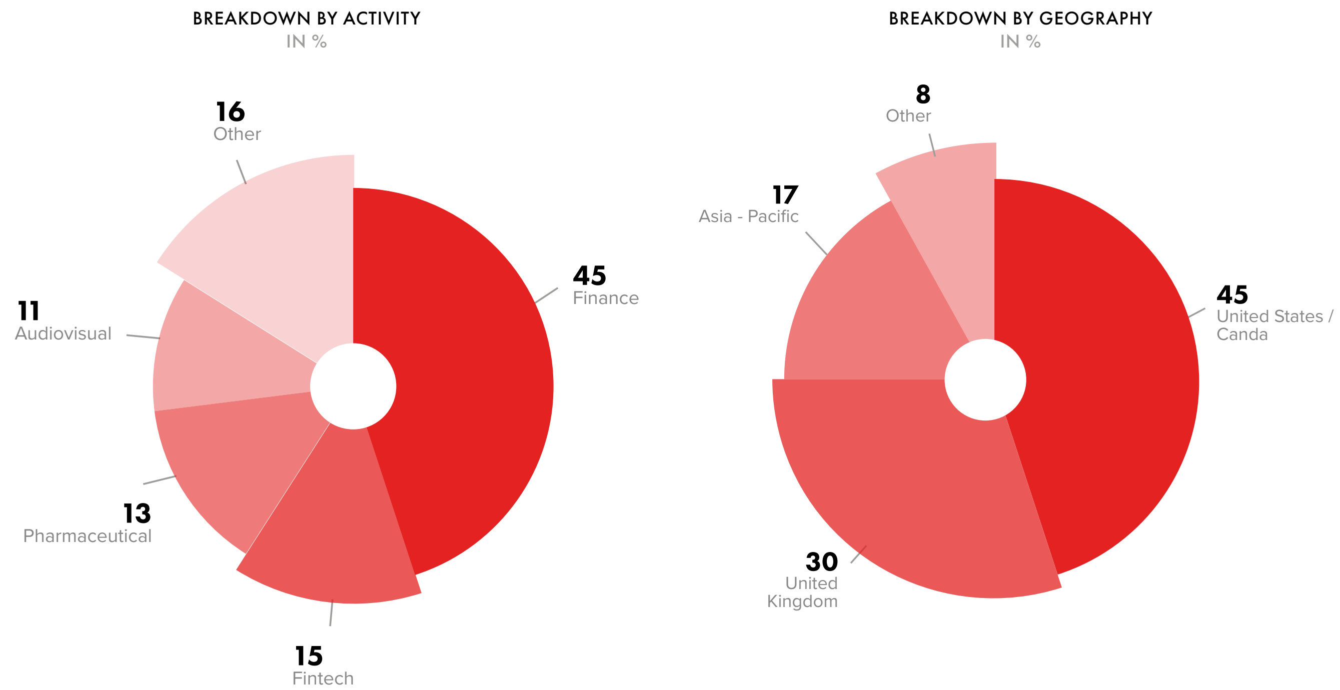
[1] Source: NFIA / IAmsterdam.

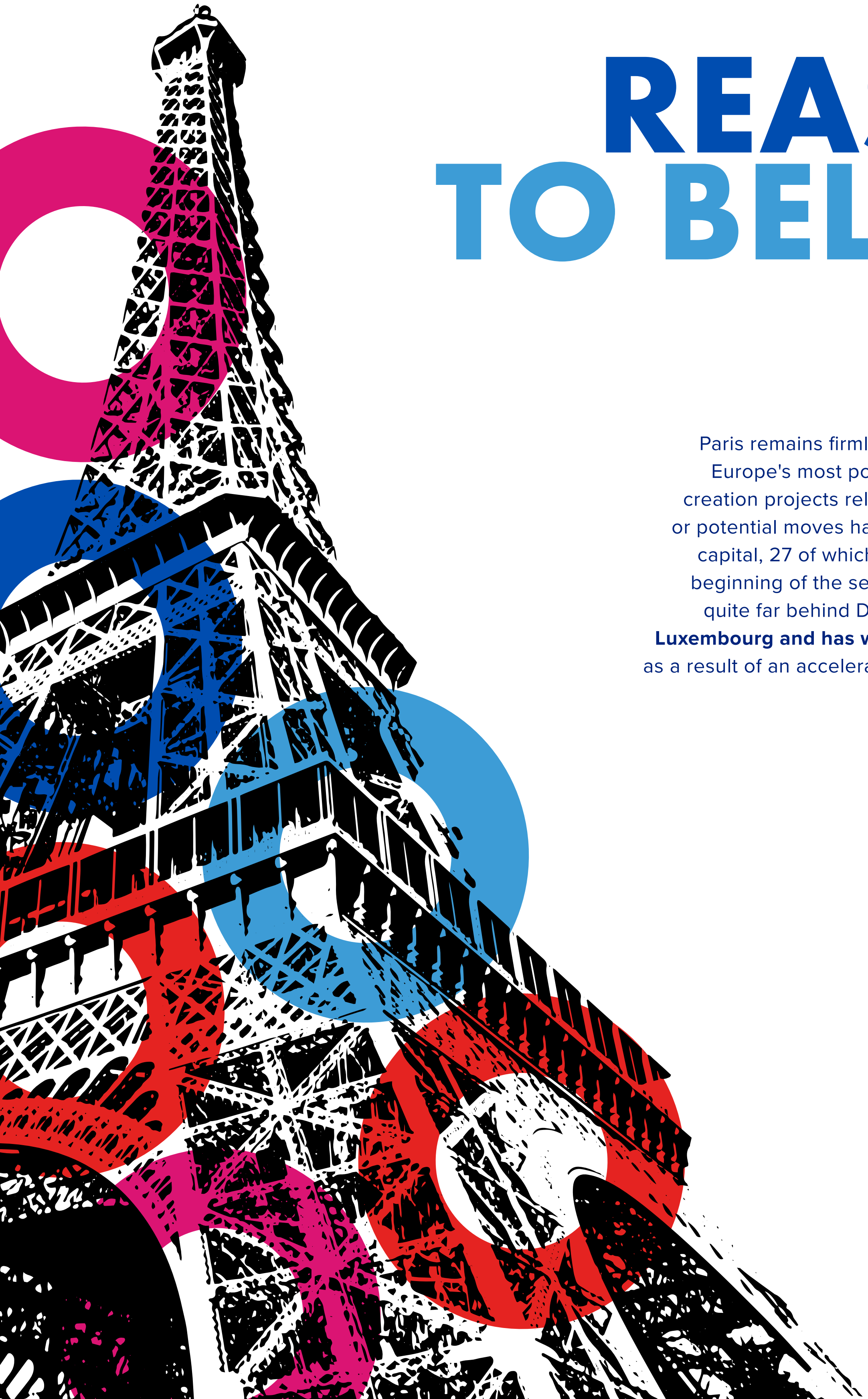


If there is one obvious indicator of this, it is the ongoing transformation of the Zuidas business district. Located between Schiphol airport and the historic centre, it has seen a proliferation of real estate projects. The city has no shortage of advantages: attractive fiscal conditions, dense infrastructure (Eurostar to London, Schiphol airport hub, proximity to Europe's largest port in Rotterdam), a highly qualified and multilingual workforce (80% of the population speaks English) and an exceptional quality of life are all qualities sought by companies and international managers. They are also widely recognised in world rankings. In 2018, the Dutch city moved up one place to reach 6th place in the Global Power City Index, which ranks global cities according to their ability to attract the creative class and companies from around the world. While London dominates the European technology scene, Amsterdam in particular has a strong ecosystem that makes it attractive not only to the most famous American companies (Google, Amazon, Netflix, etc.) or national flagships (Tom-Tom, Booking.com, etc.), but also to companies in the financial sector. Consequently, the various moves related to Brexit in the field of fintechs and high-frequency trading (Azimo, Tradeweb, MarketAxess, Quantlab, etc.) have not been surprising in Amsterdam.

> “The Netherlands has a thriving FinTech sector with an ecosystem that makes it easier to grow our European business than anywhere else outside London. Amsterdam is a great capital that attracts talent from all over the world, while the Dutch Central bank is a strong regulator that is receptive to innovation and new business models and already supervises numerous payments institutions. It is an excellent place for us to continue our expansion in Europe”
>
> **MICHAEL KENT,**
> **FOUNDER AND CEO OF AZIMO**

ANALYSIS OF BREXIT-RELATED MOVES IN AMSTERDAM SOURCE: KNIGHT FRANK, NETHERLANDS FOREIGN INVESTMENT AGENCY (NFIA)
DEFINITE AND POTENTIAL MOVES RECORDED BETWEEN MID-2016 AND 15 MARCH 2019.





REASON TO BELIEVE

BREXIT AND THE PARIS MARKET

Paris remains firmly in third place in the ranking of Europe's most popular cities for relocation or job creation projects related to Brexit. In total, 47 actual or potential moves have been reported in the French capital, 27 of which have been identified since the beginning of the second half of 2018. Although still quite far behind Dublin, **Paris has caught up with Luxembourg and has widened the gap with Frankfurt** as a result of an acceleration in the number of decisions to locate there during 2018.

A STRONG PERFORMANCE THAT AWAITS CONFIRMATION

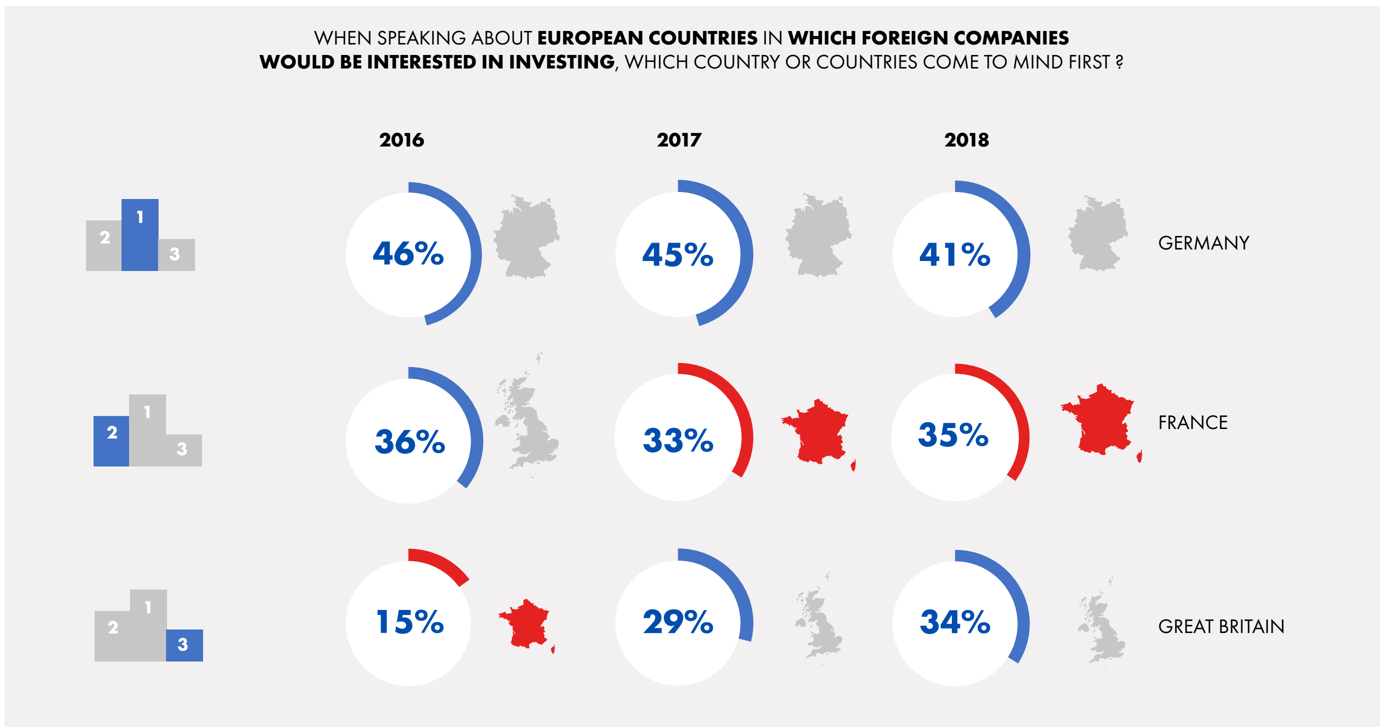
While it remains to be seen whether this strong momentum has continued in 2019, the efforts made to improve France's image and the favourable conditions offered to businesses seem to be paying off. In fact, the reforms initiated at the beginning of Emmanuel Macron's five-year term have helped to build trust with foreign companies and investors[1]. On 21 January 2019, the second "Choose France" summit was the opportunity for the French President to reaffirm his pro-business position towards 150 business leaders from all over the world, including those from Samsung, Alibaba, Uber and Microsoft. This reminder was all the more important as it occurred in the midst of the "yellow vests" movement, whose consequences could have led to fears of a reversal of the decisions taken by companies to locate their businesses to Paris. As a result, **foreign firms will continue to monitor whether the French government continues to deliver its promised economic reforms, and succeeds in easing civil unrest, but clearly the country has the attention of overseas invesors**. For the time being, Paris remains undeniably a prime location and its appeal was confirmed by the results of a poll conducted at the end of 2018 among senior executives located abroad or senior executives of foreign companies based in France. Improving its 2016 score by twenty points, France was named by 35% of respondents as the most attractive European country, behind Germany (41%) but ahead of the United Kingdom (34%).

[1] See page 20 of the previous edition of our Brexit study.

BREXIT: ITS IMPACT PUT INTO PERSPECTIVE

As in our previous study, it is finance in its various forms that constitutes the vast majority of the number of moves related to Brexit in Paris. Banks are particularly well represented, accounting for 43% of all projects (HSBC, Bank of America, Wells Fargo, etc.), ahead of asset management (BlackRock, Polar Capital, etc.) and trading activities (TP Icap, XTX Markets, etc.). Some fintech projects (SETL, GoCardless, etc.) and insurers' projects (Chubb, Scor, etc.) were also included. Companies that decide to set up in Paris belong to more diverse business sectors than in Frankfurt (where banking accounts for 80% of Brexit-related projects), but less diverse than in other European cities such as Amsterdam. The same can be said for the origin of projects. The British, Americans and also the French thus constitute the vast majority of moves to Paris. The share of Asians is very small (only 2%), whilst they are at the origin of a significant number of moves to cities such as Amsterdam (15%) and Frankfurt (22%).

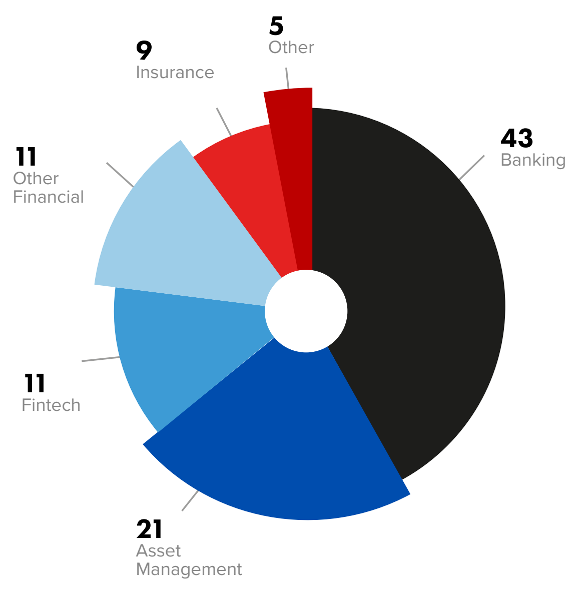
These trends put into perspective the impact of Brexit on the Parisian real estate market. Indeed, **companies that have chosen the French capital have generally been present for a long time: they therefore already have offices there and are most often able to make space to accommodate potential "repatriates" from the United Kingdom**. The leasing of large volumes of space related to Brexit is, for the same reason,



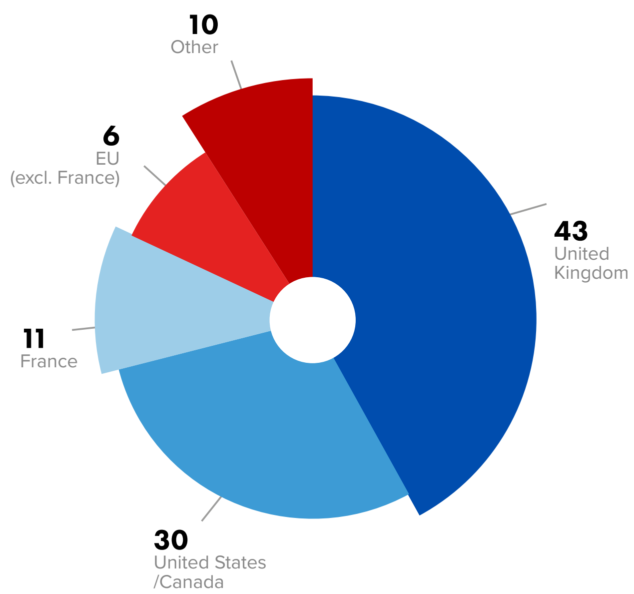
SOURCE: *KANTAR, KANTAR, POLL OF FRANCE'S APPEAL, 2019*

ANALYSIS OF BREXIT-RELATED MOVES IN PARIS SOURCE : KNIGHT FRANK
MOUVEMENTS CERTAINS ET POTENTIELS RECENSÉS ENTRE LA MI-2016 ET LE 15 MARS 2019

BREAKDOWN BY ACTIVITY
IN %



BREAKDOWN BY GEOGRAPHY
IN %

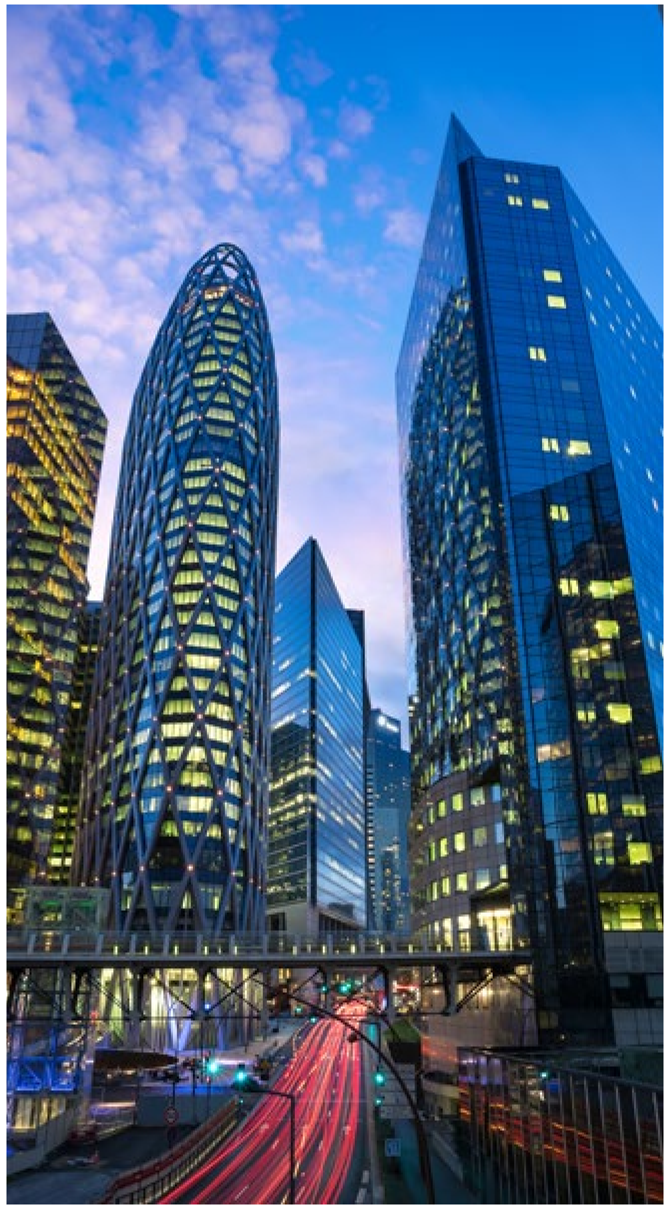


almost non-existent, with the exception of the lease signed by Bank of America on 49-51 rue La Boétie from autumn 2017. The bank was expecting a significant increase in its Parisian workforce when it signed for these 10,000 sq m of brand new offices, some of which have since been sublet to Sullivan & Cromwell's lawyers; a move that was undoubtedly well-thought out given the severe shortage of office space and rising rental trends that now characterise the Parisian real estate market. In the Central Business District (CBD), which is the most sought-after sector by financial companies, the vacancy rate has fallen below 2%, making it very difficult to find large new/redeveloped areas that are available before the end of 2019. The market context is all the more challenging as Brexit-related office searches find themselves in competition for space with expanding coworking operators and new technology firms, must accommodate the expansion of coworking and new technologies, which accounted for over 30% of take-up in the CBD in 2018. This competitive environment is not unique to the Parisian market: these two sectors accounted for nearly two thirds of the 360,000 sq m of office space let in Dublin in 2018, contributing much more than Brexit to the Irish capital's exceptional results.

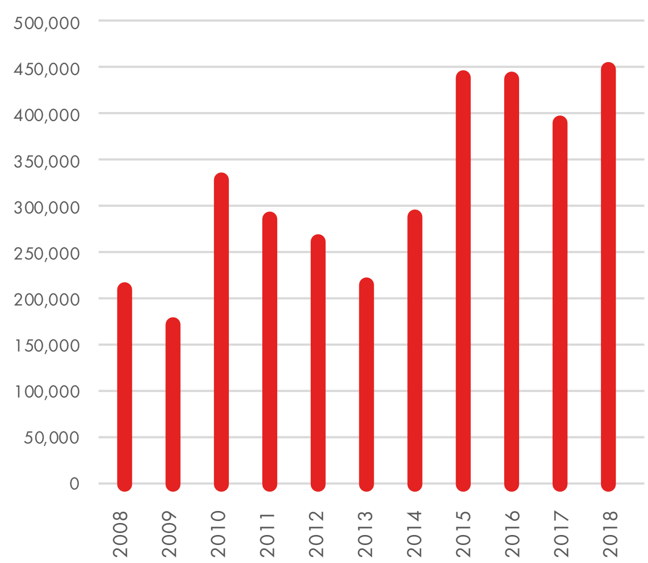
OBSTACLES TO ARRIVALS?

Could the lack of supply and the increase in rents limit Brexit-related arrivals in Paris? It is possible, even if the idea of a diminished appeal due to the shortage of offices needs to be put into perspective. The modest employment gains associated with Brexit provide us with a first argument: according to our latest estimates, these gains would amount to only around 2,100 definite or potential jobs which, if they all resulted in new leases, would represent little more than 40,000 sq m of office space. Furthermore, the relocations likely to create the greatest number of jobs are those of companies already present in Paris, who are generally capable of freeing up space in current premises, as previously discussed. On the other hand, ex nihilo creation projects concern a limited number of jobs and are most often small companies, for whom the use of coworking space makes it possible to both compensate for the lack of available office space and to have sufficiently flexible conditions to start their Parisian development within the very uncertain context of Brexit.

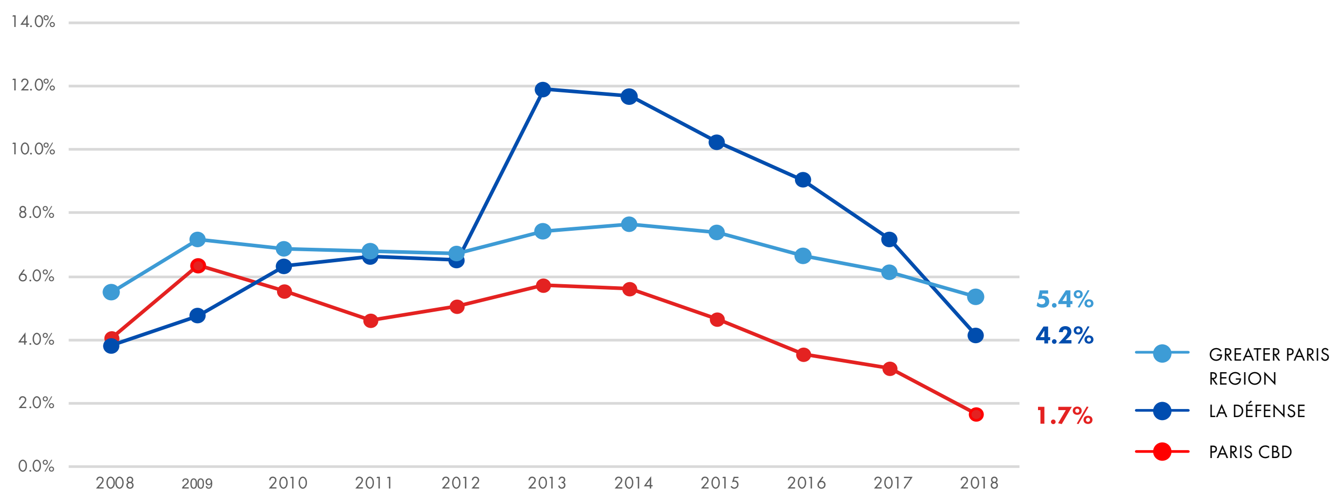
Finally, it should be noted that the shortage of real estate supply is not specific to the Parisian market and that Paris is therefore not necessarily disadvantaged compared to other European cities. Office stock in Dublin, Luxembourg, Amsterdam and Frankfurt has also been affected by very buoyant letting activity, so that companies wishing to locate in these cities due to the Brexit do not have much more choice than in Paris. **The Greater Paris Region's office stock is much larger than that of its European competitors and provides several alternatives to the inner-Paris market**. Located in the immediate vicinity of the CBD, La Défense is the most obvious deferral solution. While the vacancy rate is now very low (4.2% at the end of 2018), this market will benefit from the marketing in 2019 of several large, high-quality office complexes that are likely to absorb some of the Brexit-related moves. La Défense has already been chosen by Chubb for the transfer of its European headquarters and the district also has another strong argument: it is home to several large companies and financial institutions (Euronext, Société Générale, HSBC, etc.), and can also boast today of having a new major player with the recent arrival of the European Banking Authority.



CHANGE IN TAKE-UP IN PARIS CBD (IN SQM)
SOURCE: KNIGHT FRANK



CHANGE IN VACANCY RATE SOURCE: KNIGHT FRANK



Alain Pithon

General Secretary of Paris Europlace

Could you explain in a few words what "Paris Europlace" is and, in particular, what its role has been since the British vote in favour of Brexit?

Paris EUROPLACE is the organisation in charge of developing and promoting Paris' financial marketplace. Our association, chaired by a company manager (since July 2018, Augustin de Romanet, Chairman and CEO of the ADP group), brings together all of the players in Paris' financial marketplace and, first and foremost, companies including SMBs and start-up companies. **This focus on companies is a specific feature of our organisation compared to other financial marketplaces**. We also bring together investors (insurers and asset managers), banks and financial intermediaries, as well as local authorities – City of Paris, the Greater Paris Region – and regulatory authorities – AMF, Banque de France, the Ministry of the Economy and Finance.

We were not in favour of Brexit, but as soon as the British people's decision was known, we felt it necessary to work on the Paris financial marketplace's offer, and appeal to institutions that had to relocate part of their activities to Europe because of the loss of the financial passport.

What are your latest estimates of potential Brexit-related job gains (direct and indirect)?

To date, Paris has been at the forefront of competition between financial marketplaces in attracting financial institutions in terms of job numbers. Indeed, the first announcements of relocations by major international banks and investors – Bank of America, Blackrock, HSBC, JP Morgan, Morgan Stanley, Standard Chartered and many others – put Paris in the lead compared to other European capitals, with **nearly 5,000 direct jobs, equating to a total of more than 20,000 jobs, including indirect jobs**.

In the banking sector in particular, since HSBC's announcement at the beginning of 2017 to relocate 1,000 jobs to Paris, several new announcements have been made in favour of Paris: French banks, Arab Banking Corporation, Bank of America Merrill Lynch (400 traders), Citigroup (front office activities), Credit Suisse, Europe Arab Bank, Goldman Sachs, with their teams spread between Frankfurt and Paris, JP Morgan (25% increase in their teams), Morgan Stanley (300 positions), My Money Bank, National Bank of Kuwait, Nomura, Standard Chartered (doubling the workforce), Wells Fargo... And most of the major banks have announced that they will base most of their market activities in Paris, which will have many indirect effects. It should also be noted that the European Banking Authority (190 people) decided in November 2017 to relocate to Paris, and will be there from June this year.

In the asset management sector, announcements were made by Schroders, Polar Capital and Blackrock as well as French companies returning to Paris (Clerville AM, Eleva Capital, SmartLenders). The same goes for brokers including TP ICAP, XTX Markets...

In the insurance sector, the American companies Chubb and Global Aerospace have chosen Paris as their preferred location.

What are the strengths of Paris' financial marketplace, and what can still be done to increase its appeal?

Paris' financial marketplace has four main strengths:

• Paris and the Greater Paris Region is **the only global economic region in Europe**, on a par with London.

• It is **the European Union's leading financial marketplace**, a "universal" market with major clients such as large French and international companies in Paris, and major market players: five French banks in the European top 10; **a pan-European Euronext stock exchange**, the leader in EU equity markets; the leading asset management centre in Europe, twice the size of that of Germany; **the leading European insurance market**; and high quality regulators that are recognised internationally.

• It is **an innovation centre in Europe**, with the strong development of FinTechs and a recognised pool of financial researchers. Paris also has a leading position in sustainable finance.

• Finally, the major reforms carried out over the past 18 months – on an unprecedented scale – have provided Paris' financial marketplace with **a more competitive fiscal and regulatory framework**. As the Financial Times pointed out, the tax regime for inpatriates (the French "Non Doms") is probably the most efficient in Europe.

Beyond Brexit, we are working with the Ministry of Finance and market authorities on an ambitious and long-term project based on three strategic priorities:

• Strengthen the appeal and competitiveness of our financial marketplace: this requires in particular (i) greater flexibility in our labour law for senior executives; (ii) a reduction in the cost of skilled labour; (iii) confirmation of the commitment to stability and transparency of rules, particularly tax rules; (iv) improvement in host and transport infrastructures (international schools, urban transport and public transport....).

• Identify industrial projects that support our strategy in terms of financial innovation, sustainable finance and long-term investment, particularly with regard to the unicorns of tomorrow and infrastructure.

• Strengthen the influence and standing of Paris' financial marketplace, with a view to the next European term of office.

Have more targeted efforts been made to enhance the expertise of Paris' financial marketplace in certain strategic areas, such as sustainable finance or Fintechs?

We organised the 1st "Climate Finance Day" in May 2015 with the European Investment Bank and Caisse des Dépôts, in preparation for COP21. It marked the founding act of the financial sector's commitment to the fight against climate change. To continue and consolidate this momentum, **Paris EUROPLACE launched the "Finance for Tomorrow" (F4T) initiative** in June 2017, which brings together local stakeholders involved in sustainable and environmental finance and helps to redirect financial flows towards a low-carbon and inclusive economy, in line with the Paris Agreement and the Sustainable Development Goals.
Our priorities are (i) to develop Paris' financial marketplace products as well as its expertise (green bonds, green loans, impact investing...) and (ii) to influence European and international debates on the subject.

In terms of financial innovation, **Paris EUROPLACE initiated the creation of the FINANCE INNOVATION Centre in 2008**, a global competitiveness centre dedicated to supporting and growing innovative projects for the competitiveness of the French financial industry and the creation of jobs. More than 550 innovative projects with high added value have received funding of over 300 million euros.

Financial innovation is not limited to Fintechs alone, and permeates the entire financial sector and the financing of the economy. We are trying to mobilise in two ways: (i) provide public authorities with information on how to create a favourable framework for fundraising via ICOs (Initial Coin Offering) and STOs (Security Token Offering), as well as how to boost the use of Artificial Intelligence in financial services; (ii) support market initiatives: Liquidshare (application of the blockchain to the processing of unlisted SMB securities); Iznes (application of the blockchain to investment fund subscriptions)...

France's image has improved significantly since 2017. How has the perception of foreign investors changed in recent months? Has the increase in global uncertainty and social tensions in France led to a fall in investment projects?

The change of image is undeniable! It is of course due to the rapid and orderly implementation of the commitments made by Emmanuel Macron, in particular with the Pénicaud rulings as well as the implementation of the flat tax and the Wealth Tax ("Impôt sur la Fortune Immobilière"). But it also comes from **a clearer political line, deliberately pro-business and pro-European, which makes the country's appeal and competitiveness a strategic priority.**

We have seen no direct effect of the "yellow vests" movement on investment. The 2nd "Choose France" summit on 21 January confirmed that the trend remains positive and confident. It is true that these recent moves have shocked us with their excesses but, paradoxically, positive effects may emerge over time through the great national debate. It forces us to be much better at explaining the importance of these changes and their effects. We will also have a concrete example with the assessment of the effects of the tax reform on savings – an assessment that can only be made over time.
Beyond that, the challenge for leaders of the financial sector and for the millions of people who work in it is to show the economic and social utility of finance, a finance that is responsible, not ungrounded.

TIME IS ON MY SIDE

BREXIT AND THE LONDON MARKET

*"Brexit is changing the face of the London economy, creating **a very different city that will enjoy a complementary relationship with the EU**".*

JAMES ROBERTS
UK CHIEF ECONOMIST, KNIGHT FRANK

A DIFFERENT LONDON

London's economy, and as a consequence its office market, is adapting to match three dominating trends – the vote to leave the EU, the rise of the digital economy, and the move towards a jobs market focussed on talent. As a result, the tectonic plates are shifting the economic landscape, and London is becoming a different place, creating opportunities both within the city and for other cities in Europe. The case for London has not ended, it is just taking a different and more dynamic form.

NO EXODUS

Let us first dispel a myth. There has not been a mass exodus of tens of thousands of jobs from London's financial industry. New brass plate headquarters have been established by international banks and insurers in cities like Paris, Dublin and Frankfurt, but the number of jobs moved so far has been far lower than originally expected. A January 2019 survey by news agency, Reuters, found that London's financial firms now intend to relocate around 2,000 roles to the EU as a result of Brexit. This is the equivalent of 0.5% of London's financial workforce of 398,000.

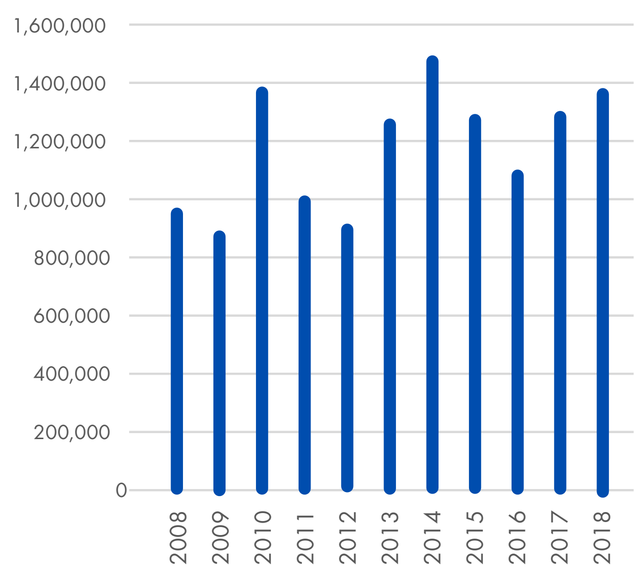
Interestingly, since the UK voted to leave the EU, net employment in finance in London has risen by 6,000 posts, according to government statistics. **This is a reminder that the city's financial firms are not just serving EU clients. Domestic and international markets are traded in London. In the post-Brexit world, London finance will refocus on these markets**. Consequently, future growth for EU trading will occur in the cities that attracted the brass plates that moved out of London prior to March 2019. Therefore, cities like Paris, Dublin and Frankfurt, will benefit from future growth in EU markets trading that London has forfeited as a result of Brexit. The focus in the media on upfront job relocations misses the point. EU landlords will receive a larger Brexit dividend a few years from now, as banks take expansion space.

ROBUST PERFORMANCE

However, while London is set to lose some future growth, there is little doubt it is still expanding at a healthy pace. At the end of December 2018, the unemployment rate in London stood at 4.5%, down from 5.0% a year earlier. In the last two years, London's workforce has seen a net increase of 208,000 jobs. Around 37% of the newly created roles are in the high growth information and communication sector. All of this has occurred as the UK moved towards Brexit.

Activity in the office market also supports the view that London is expanding despite Brexit. Take-up in Central London reached 1.4 million sq m in 2018, up from 1.3 million sq m in 2017, and ahead of the ten year average of 1.2 million sq m.

CENTRAL LONDON OFFICE TAKE-UP (IN SQM²)
SOURCE: KNIGHT FRANK



DIGITAL LONDON

Like the employment figures, the office market statistics demonstrate the growing significance of the technology sector in London's economy. Technology, Media & Telecoms (TMT) was the largest source of office demand in 2018, accounting for 22.5% of take-up, compared to 15.9% for finance. Since the referendum to leave the EU, London has seen major office deals signed by Apple, Amazon, Google, Facebook, and Linkedin.

Employment in the information and communication sector in London overtook finance and insurance several years ago, and has actually surged in the aftermath of the vote to leave the EU in 2016. This is a result of two trends that are independent of Brexit.

Firstly, like every other nation, the UK is being transformed by technology that is changing every aspect of life. If the Victorian inventor in H.G. Wells's novel, The Time Machine, arrived in London today, the first thing he would be struck by is that people spend much of their day staring intently into palm-sized, glass-fronted rectangles, flashing images and text. Second, tech firms want to be in London to access the talented staff found there, the graduates of Britain's many world class universities.

Yes, other cities inside the EU have fine academic institutions, but the tech giants want to recruit all talent, wherever it is found. This is why in the US, the tech firms have long-since set up offices away from their Silicon Valley heartland, in cities like New York and Boston, with their large pools of bright young people.

Critically, a line of code written by a programmer in London can be used by their tech employer anywhere in the world. **The Digital economy is essentially borderless, and Brexit does not present tech firms with the same problems that are confronting banks**.

THE KNOWLEDGE ECONOMY

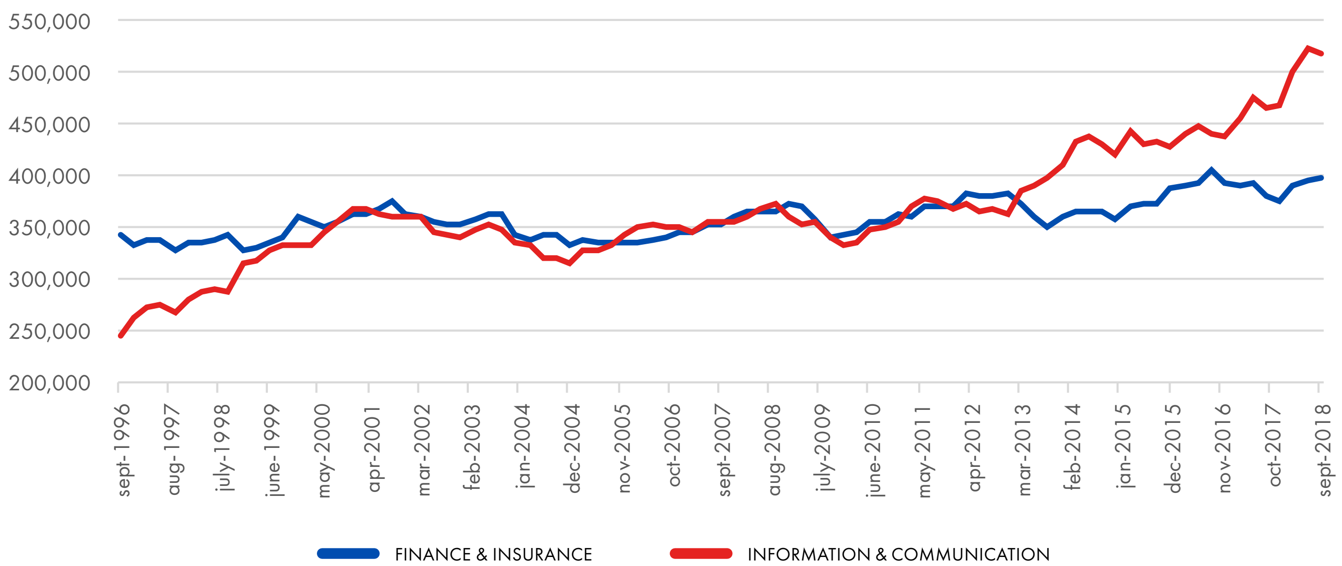
Post-Brexit, London's economy will develop towards these borderless industries, built on innovation and development. London is fast expanding as a scientific R&D cluster, particularly in the area around King's Cross, near to the Eurostar rail terminal, with its connections to Paris and Brussels. Discoveries made in London can be patented then manufactured in the EU, by-passing regulatory barriers. Little wonder that March saw the UK government announce it would end immigration visa caps on jobs that require a PhD.

The long-term result of this could be something that is out-of-step with the current political narrative we hear on Brexit. The relationship between London and the other European cities might be complementary not competitive. A tech firm will have a London office to house a certain development function because the best engineers for that product are there. The outputs of the London staff will then be applied and leveraged by other engineers and developers in the Eurozone, who have different skills and knowledge.

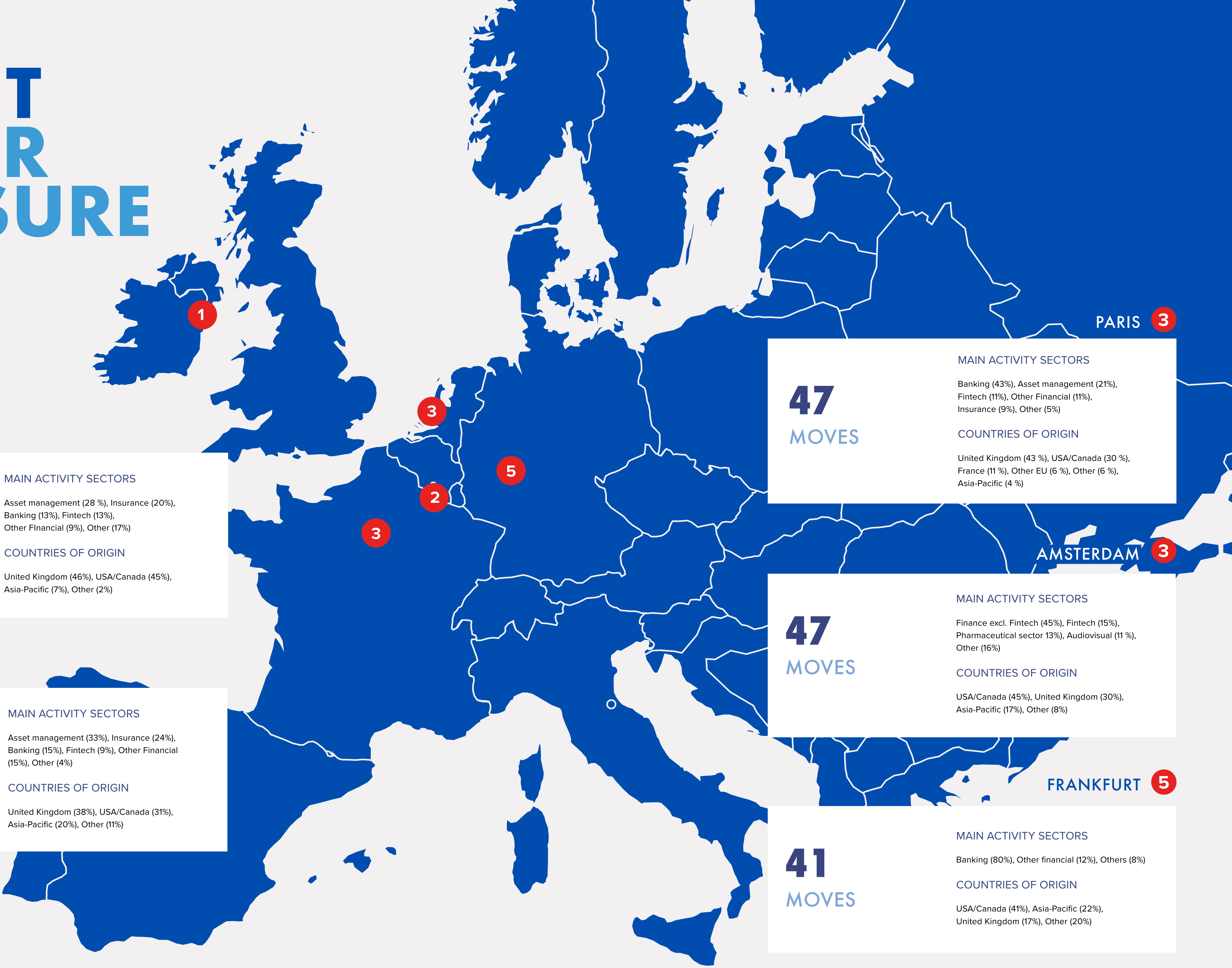
Similarly in banking, an EU-based corporation will use local banks for Euro Area trading, but turn to a London-based specialist emerging markets bank, when deciding to do business in an Anglophone country in Asia or Africa.

Once the invisible hand of the economy has redistributed parts of companies to the best suited location; **London and EU cities could again work together in a new and dynamic partnership**.

LONDON JOBS - FINANCE VS INFORMATION SOURCE: ONS



BREXIT UNDER PRESSURE #2



1 DUBLIN

86
MOVES

MAIN ACTIVITY SECTORS

Asset management (28 %), Insurance (20%), Banking (13%), Fintech (13%), Other FInancial (9%), Other (17%)

COUNTRIES OF ORIGIN

United Kingdom (46%), USA/Canada (45%), Asia-Pacific (7%), Other (2%)

2 LUXEMBOURG

55
MOVES

MAIN ACTIVITY SECTORS

Asset management (33%), Insurance (24%), Banking (15%), Fintech (9%), Other Financial (15%), Other (4%)

COUNTRIES OF ORIGIN

United Kingdom (38%), USA/Canada (31%), Asia-Pacific (20%), Other (11%)

PARIS 3

47
MOVES

MAIN ACTIVITY SECTORS

Banking (43%), Asset management (21%), Fintech (11%), Other Financial (11%), Insurance (9%), Other (5%)

COUNTRIES OF ORIGIN

United Kingdom (43 %), USA/Canada (30 %), France (11 %), Other EU (6 %), Other (6 %), Asia-Pacific (4 %)

AMSTERDAM 3

47
MOVES

MAIN ACTIVITY SECTORS

Finance excl. Fintech (45%), Fintech (15%), Pharmaceutical sector 13%), Audiovisual (11 %), Other (16%)

COUNTRIES OF ORIGIN

USA/Canada (45%), United Kingdom (30%), Asia-Pacific (17%), Other (8%)

FRANKFURT 5

41
MOVES

MAIN ACTIVITY SECTORS

Banking (80%), Other financial (12%), Others (8%)

COUNTRIES OF ORIGIN

USA/Canada (41%), Asia-Pacific (22%), United Kingdom (17%), Other (20%)

Source: Knight Frank/Press/Research reports/Development agencies.
NB: Definite and potential moves. Survey as at mid-March 2019.