

PROPONOMICS

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LONDON'S FINANCIAL SECTOR – EVOLVING NOT LEAVING

Fears that London is set to lose swathes of bank jobs now look overblown, but finance has been shrinking in importance for the capital's economy and property market for some time.

Headlines

Attitudes in Europe appear to be easing on granting London's financial firms access to the EU market after Brexit

Nevertheless, some jobs (mostly back office) will leave London for Europe, but employment growth in tech should fill the void

The London economy today has a broader base than back in 2007, with finance now one of several key sectors

The London office for finance firms increasingly houses high value staff, and we see a move towards quality c-suite accommodation



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Since the vote to leave the EU, uncertainty has surrounded the outlook for London's financial sector, with the risk that banks and insurers may relocate functions to continue serving their European clients. However, recent weeks have seen a number of statements by policymakers in the EU that suggest the impact of Brexit on London's financial hub may not be as great as initially feared. An air of compromise appears to be emerging.

Yet, we also need to be mindful of long-term changes in London, where finance has been reducing in importance for nearly a decade now. Back office jobs have been leaving the capital, but this evolution away from finance is ultimately leaving the London economy stronger.

Germany's finance minister, Wolfgang Schäuble, in a newspaper interview in early February said: “London offers a quality of financial services that are not to be found on the continent. That would change a bit after a separation, but we have to find reasonable rules here with Britain.” Speaking at a conference in late February, Herr Schäuble said: “the financial centre of London will remain and be important to the EU economy as a whole”.

Similarly, Bundesbank executive board member, Dr Andreas Dombret, called for pragmatism in the future financial relationship between the UK and the EU, in a recent interview with the BBC. He described London as “the most important financial centre in Europe”.

Dr Dombret told the BBC: “I see it as my job to make sure the transition is as smooth as possible, and we, I can promise, will be as pragmatic as possible.”

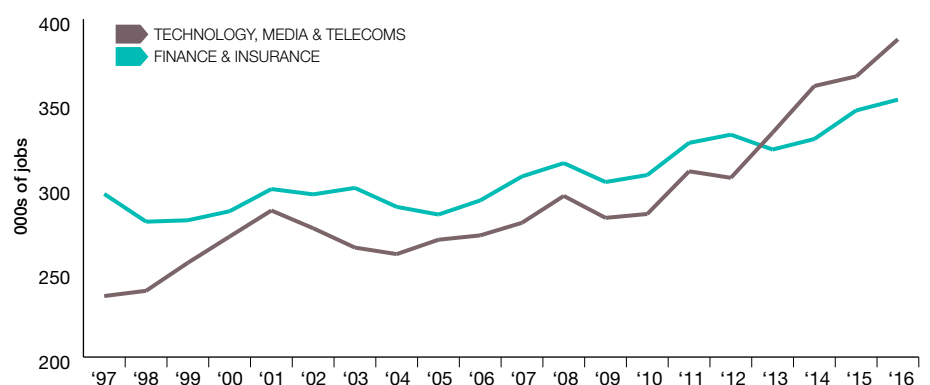
The message from senior policymakers in Germany is clear. There is going to be change, but no-one wants a cliff edge, and London is a great market place for European firms to raise finance. This supports our view that some finance jobs will leave London, but probably thousands not tens of thousands of posts.

We also need to consider the nature of the jobs London will probably lose.

The moment stockbroking firms installed telephones in their offices, decision makers no longer needed to be located in the city whose markets they traded. The people who need to be on the ground in the European single market are the back office staff – or increasingly,

FIGURE 1

Headcount in London - Finance vs Technology, Media & Telecoms



Source: Experian / ONS

the computers that are playing an ever greater role in this process.

Job relocations due to Brexit will accelerate a long established trend of London migrating towards being a front office location. Those in the London office will be senior executives and rainmakers, plus the teams that support them. Yes, London loses the back office finance jobs, but headcount growth in technology and creative industries will fill the void. In fact, technology, media and telecoms (TMT) firms overtook finance in job numbers back in 2013 (see figure 1).

Interestingly, popular tech and creative districts like Shoreditch and Southbank once housed the back offices, so to date surplus finance space has dovetailed nicely with rising demand from the new wave of occupiers. Moreover, the lesson from San Francisco is that tech firms are willing to spill into the core financial district when supply becomes constrained in the trendy areas.

Deals like Deliveroo taking space in what was once the LIFFE building on Cannon Street suggest techs are looking at offices in previously finance-led locations like the City Core.

Focussing on fewer financial jobs is to miss the big picture: that total office demand in London is evolving. Process jobs are leaving, but being replaced by high value jobs in growth sectors like tech.

Critically, this evolution is introducing gentrification into the commercial property market, which is over the

long-term delivering higher rents. In 1999, when Clerkenwell and Shoreditch were financial back office locations, prime rents were £28.50 per sq ft, which was 46% less than City Core rents at £52.50 per sq ft. Today, rents in tech-driven Clerkenwell and Shoreditch are £65.00 per sq ft, or just 5% cheaper than the City Core.

The demise of London's back offices only becomes a problem if the rise of new sources of employment fails to keep pace. If the TMT sector in London continues to grow at its average rate over the next three years, enough jobs would be created to offset a 15% fall in financial headcount. Nevertheless, changes in supply and demand will never match perfectly, and there will be some short-term and localised increases in supply in places where banks are especially prevalent.

Central London will in our opinion lose a few thousand jobs to other European cities over the next three to five years. The losses will be made up from 2019 onwards, as the City institutions find new ways to make money outside the European Union.

However, the finance jobs that remain in London will be the most productive and profitable ones, which will have implications for office demand. The London office will house the roles that are better paid, difficult to automate, and client-facing. The financial sector, far from disappearing from the radar screen, will in the future drive demand for high quality c-suites in London.

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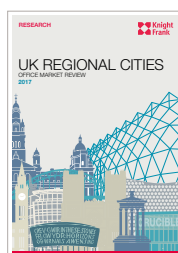
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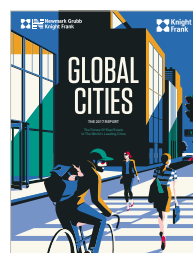
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