

FOCUS ON

The finance sector

OCCUPIER REPORT

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The finance
sector

Introduction

Introduction

A strategic sector

Finance is one of the most strategic sectors in the French economy. It is especially present in the Greater Paris region, which is home to 60% of all French bank employees. Two banks – Société Générale and BNP Paribas – are among the region's 10 largest employers. This is reflected in the bank sector's significant footprint in the Île-de-France property market. In addition to providing development, financing and investment, the finance sector and banks in particular are among the largest occupiers of office buildings, with nearly 3.5 million m² leased in Île-de-France since 2000. Over the years several banking districts (Paris 13th, Montrouge, etc.) have emerged and consolidated, supplementing the traditional financial districts of Paris CBD and La Défense.

The turning point at the end of the 2000s

While major transactions of occupiers still regularly drive the Île-de-France market, the change in lettings activity suggests a slowdown over the past decade. The years 2009–2011 constituted a turning point. Shaken by the fall of Lehman Brothers and the sovereign-debt crisis, the European financial sector began carrying out massive layoffs. The sector shrank from 3.26 million employees in 2008 to 2.67 million at the end of 2018.

Over the past few months this momentum has picked up. Several large banks (Société Générale, Deutsche Bank, Commerzbank, UniCredit, etc.) have announced significant downsizing plans, sometimes affecting more than a thousand employees. Though not all business lines are affected in the same way, the whole finance sector is under pressure.

Low interest rates cut deeply into the margins of retail and investment banks, which must also face regulatory constraints (Basel III, etc.)

Business lines disputed by technology

Technological progress plays a decisive role by encouraging traditional financial companies to transform their model towards greater productivity. The tools at their disposal are digitisation, robotization and artificial intelligence. By performing repetitive, time-consuming tasks which often require little skill, these technologies have considerable impact on back-office functions. More complex functions are also affected by this sea change. For example, investment banks have been deeply altered by AI and the meteoric rise in algorithmic trading.

Between cost-cutting and more efficient use of property

The effects on the property market are obvious. In general, restructuring of the bank sector has resulted in less occupied space. Modern, more efficient offices are adapted to new technologies and new ways of working, while keeping property costs under control. The aim is twofold: 1. to create value through innovation, in order to meet the new aspirations of customers (corporate and retail); 2. to use offices to attract talent, in a context of increased competition for certain strategic profiles.

The fintech revolution

The recruitment of talent is also strategic for fintech companies, which first appeared at the beginning of the decade. Today they employ around 10,000 persons in France. Although a threat to traditional financial companies, fintech also incites them to accelerate their digital transformation. With investment increasing, fintech companies are growing rapidly, especially in Paris. Certain parts of the CBD are highly sought after by both managers and employees. Property therefore provides companies the strategic leverage they need to continue growing while remaining as flexible as possible faced with a stubborn shortage of high-quality office space.

In this third report focused on occupiers of office space, Knight Frank reviews the major trends in the finance sector and analyses their effects on the Greater Paris region lettings market.

Introduction

CHALLENGES

Profitability
Competition
Digital



SOLUTIONS

Costs



Workforce



Customer relations

WHAT
IMPACT
ON
THE
PROPERTY
MARKET?



2

The finance
sector

Key figures and sector overview

Key figures

85%

of all back-office tasks can be automated.

Source: McKinsey, 2018

2 out of 10

Two French banks are in the global top 10 in asset volume: BNP Paribas and Crédit Agricole.

Source: S&P, 2018

20%

of Europeans older than 14 (50 to 85 million persons) will be customers of neo-banks by 2023.

Source: AT Kearney, 2019

48%

of French people uses apps to manage their transactions.

Source: IFOP poll, 2018

-18%

The decline in the workforce of European banks between 2008 and 2018.

Source: ECB, 2019

1.9%

The bank sector's share in private employment in France, i.e. 362,800 employees in 2018. Last year there were 42,300 new hires.

Source: French Banking Federation, 2019

12%

of bank branches could close by 2020 because of sector digitisation and the decline in the number of customers coming to branches.

Source: Sia Partners, 2018

Sector overview



Property

After opening the Dunes campus in 2016 in Fontenay-sous-Bois, **Société Générale will move to Sakura in 2021**. The 31,000 m² complex was leased in the first quarter of 2019. This new development falls within the bank's strategy to group employees in eastern Île-de-France, thereby supplementing its offices in La Défense.

Brexit

385 potential and confirmed projects related to Brexit have been seen since 2016, including more than 70 projects since the beginning of 2019. **As the home to 51 of these 385 projects, Paris remains one of the three most desired destinations**, after Dublin and Luxembourg and neck and neck with Amsterdam. As the 31 October deadline approaches, the large majority of projects continue to be in the finance sector. Underlying this is the expected loss of the European passport, currently used by nearly 5,500 companies. Among these are non-British companies which use London as their gateway to the European Union.

Fintech/innovation

After a record year in 2018, fintech investment worldwide has significantly slowed since the beginning of 2019. According to a recent study by KPMG, fintech investment was less than \$38bn in H1 2019, compared with \$62.8bn in H1 2018. Despite a dearth of very large deals in the first half of the year, several are planned for the second (e.g. funds raised in July by Brazilian fintech Nubank and German direct bank N26). Six months after raising \$300m, N26 has completed a new round of financing of \$170m. Currently valued at \$3.5bn, **N26 intends to accelerate international development**, particularly in France where it recently opened offices and aims for two million users by the end of 2019.

Cost-cutting

BNP Paribas intends to eliminate 500 jobs over three years at BNP Paribas Securities Services in France. With low interest rates hurting bank income, the goal is to preserve the competitiveness of its investor-services subsidiary. Similarly, after the loss of 1,600 jobs in a cost-cutting plan for investment banking, Société Générale will eliminate 530 jobs in retail banking by 2023.

Restructuring plans have been announced recently by other global players, e.g. 7,000 jobs to be eliminated at Barclays and 4,300 at Commerzbank. Moreover, **HSBC may soon sell its retail banking business in France**.

Regrouping

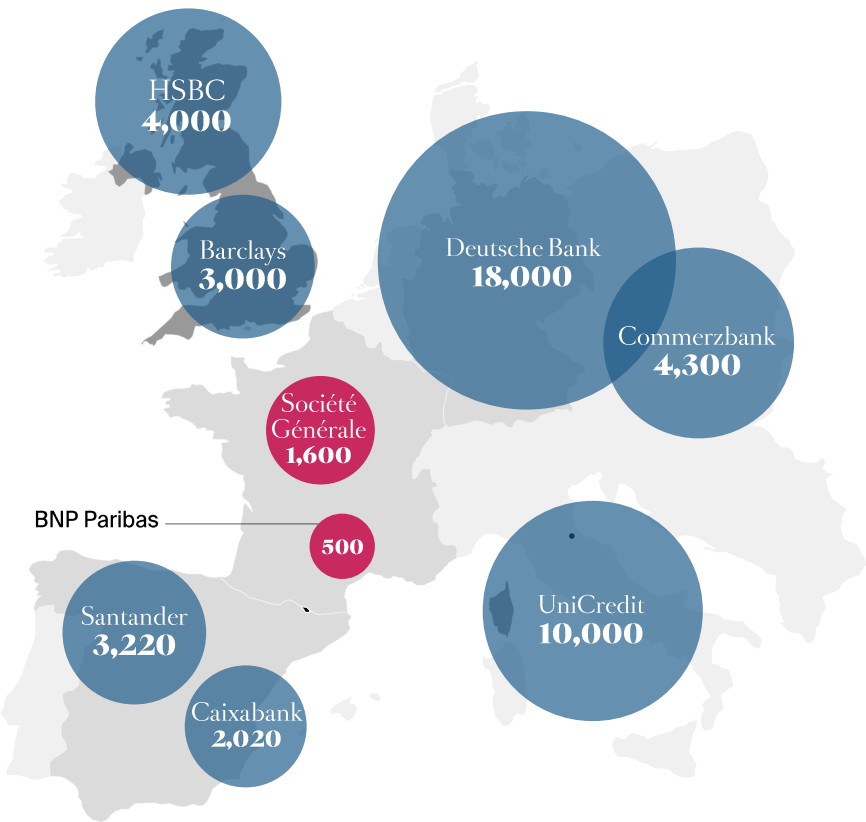
The "Operation Mandarin" project, designed to create a major financial group comprising the Caisse des Dépôts, CNP, La Poste and La Banque Postale, could be finalised by the beginning of 2020, according to French finance minister Bruno Le Maire. Once the deal merger has been finalised **La Banque Postale will own 62.13% of CNP**, with 16.11% held by BPCE and a free float of 21.76%. In addition, at the end of July BPCE Group and La Banque Postale announced a joint venture in asset management for a European clientele. The entity will have more than €400m of assets under management.

A sector under pressure

Slimmed down, along with profitability

MAJOR DOWNSIZINGS ANNOUNCED BY EUROPEAN BANKS

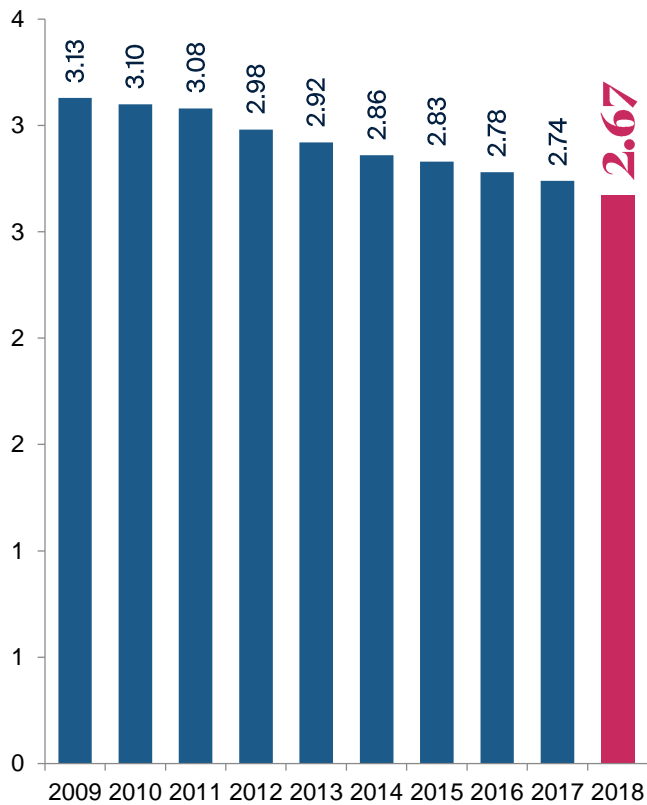
Number of jobs lost



Sources: BCE, Les Echos, Le Monde / *Mainly in UK and US

CHANGE IN WORKFORCE OF EUROPEAN BANKS BETWEEN 2009 AND 2018

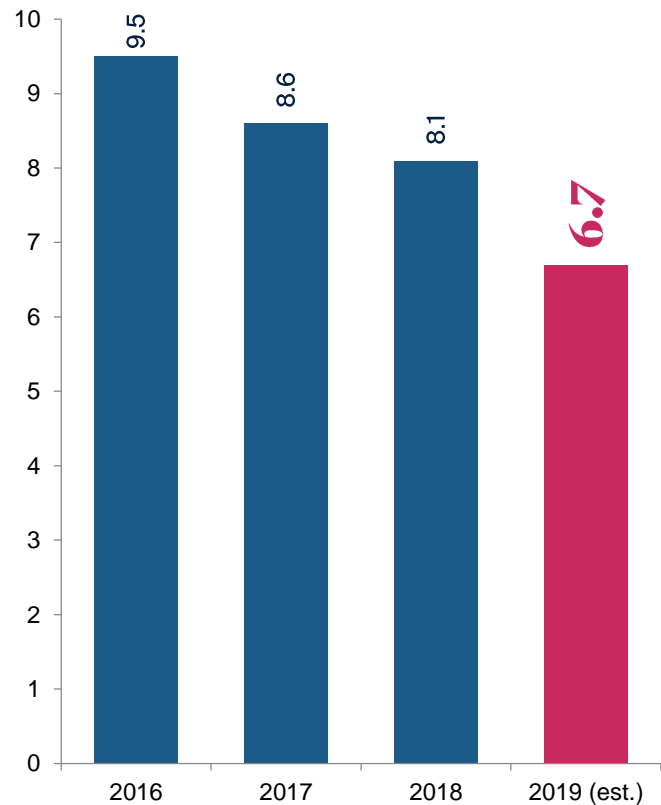
Persons (in millions)



Source: European Banking Federation

ROE OF INVESTMENT BANKS

In %



Source: Coalition Analytics, a report on the world's 12 largest investment banks

A sector under pressure

A new kind of competition

Technological advances and the digital revolution have opened the way for new players to enter financial services.

- Neo-banks first appeared on the scene a dozen years ago. They are gradually succeeding thanks to their capacity to innovate and to the streamlined experience they offer to both retail and business customers. In France there are around 20 alternative banks competing for a market of 2.6 million accounts, compared with 1.5 million a year earlier (source: KPMG). Sector leaders include French neo-banks, many from the banking and retail sectors (Nickel, C-Zam, Orange Bank), as well as large international leaders rapidly developing in France (N26, Revolut, etc.).
- Internet giants, especially the GAFA, enjoy a large and growing number of customers, significant data bases and perfect control of the digital environment. As they chip away at the intermediation role that was long the exclusive domain of banks, certain neo-banks are developing new payment options, often in partnership with established players (Apple and Goldman Sachs). They intend to expand to all financial activities (insurance, loans, etc.), and even to create new currencies for billions of users (Facebook and its Libra cryptocurrency).

Examples of neo-banks in France

Number of active accounts*

 **NICKEL** > 1,300,000

 **N 2 6** > 900,000

 **Revolut** > 500,000

 **orange bank** > 300,000

 **C-zam** > 150,000

 **eKO** > 100,000

How traditional banks are reacting



Creation of neo-banks

Yolt, launched by ING

Ma French Bank, launched by La Banque Postale



Acquisitions

Holvi, acquired by BBVA

Nickel, acquired by BNP Paribas

Fidor Bank, acquired by BPCE



Partnerships

Alipay, partnered with Standard Chartered
Crédit Mutuel Arkéa, invested in **Younited** Credit



Diversification

Barclays, which is launching a cloud/online data storage service

Commonwealth Bank of Australia, which is launching an online business insights tool for retailers (Daily IQ)

*Estimates/various sources

Source: Financial Times

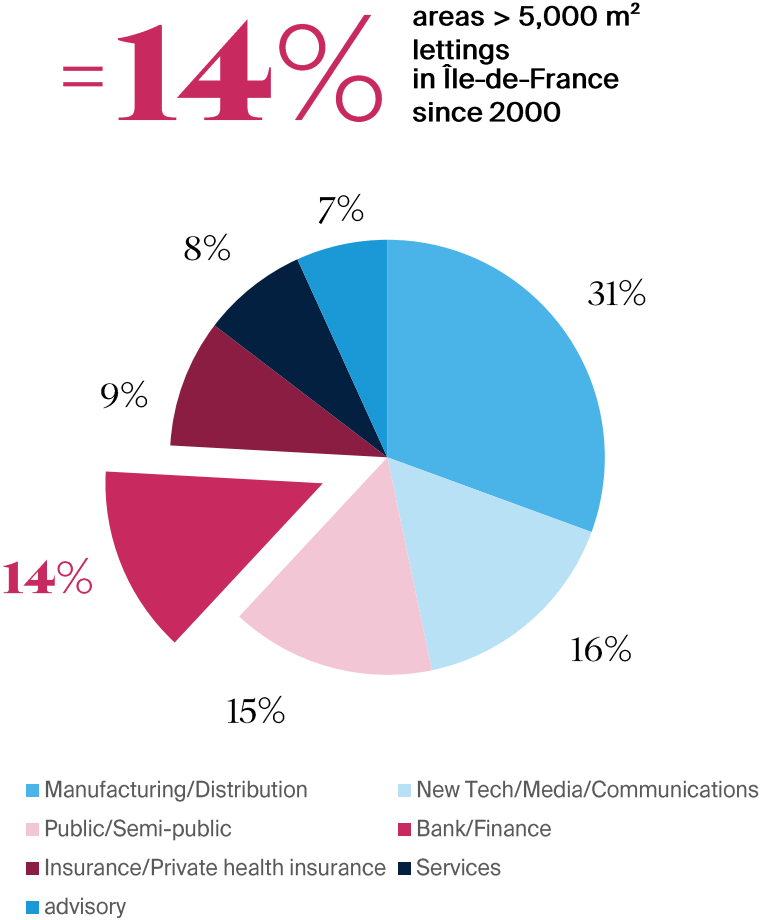
The finance
sector

The finance sector
and the Île-de-France
office market

Major
French banks

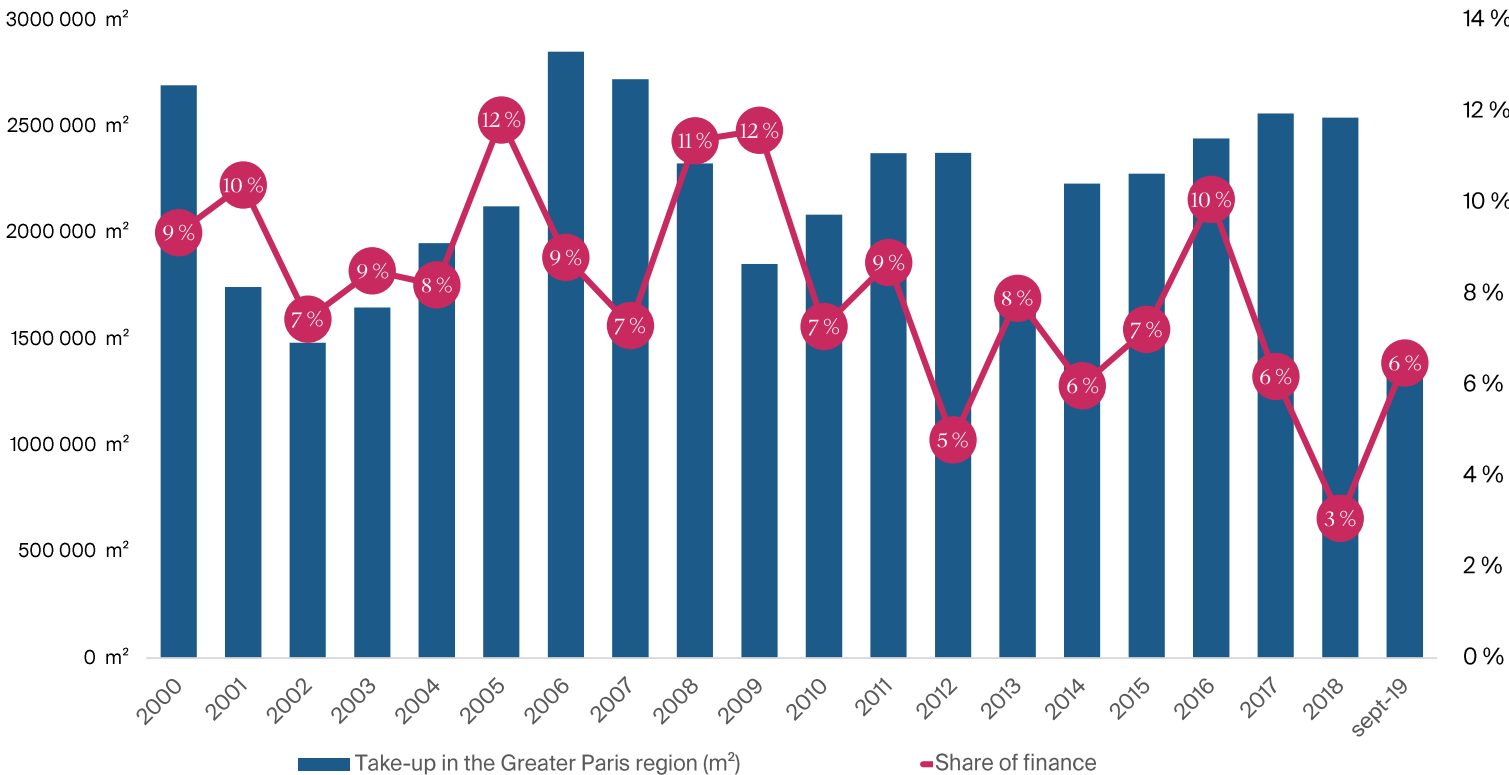
A major player in the office market

Finance



SHARE OF THE FINANCE SECTOR IN TOTAL OFFICE M² LET SINCE 2000 IN ÎLE-DE-FRANCE

Source: Knight Frank / *Estimate at end-September 2019



- Since 2000, occupiers from the finance sector have accounted for 8% of office take-up, all sizes and geographic sectors in Île-de-France combined.
- For deals of more than 5,000 m², its share comes to 14%, putting the sector in fourth position after manufacturing/distribution, new tech/media/communications, and public/semi-public.

Major French banks

A long history deeply rooted in the CBD



THE ERA OF GREAT BANKERS

- Financed international trade
- Favoured the placement of large sovereign bonds
 - Encouraged the issuance of securities
- Financed the development of new neighbourhoods
 - Played an important political role

From the second half of the 19th century
 → Located in the Plaine Monceau quarter
 (Paris 8th and 17th)



THE RAPID GROWTH OF LARGE BANKS

- Calls for increasingly large amounts of capital
- Industry modernised / infrastructure financed
- Collection of savings products nationwide
 - First branch networks
- Investment services, distribution of chequebooks, etc.

From the 20th century until the 1990s

→ Concentrated in the CBD



THE GLOBALISED BANK

- Banking system deregulated
- Major banks denationalised
 - Mergers/acquisitions
- Crises/international competition
- Creation of Euronext then NYSE-Euronext
 - Digital revolution

Since the 1990s

→ Emergence and consolidation of new
 finance sectors outside the Paris CBD

Major French banks

A shifting landscape

The traditional home to French finance since the 19th century, the Paris central business district (CBD) exercised virtual exclusivity over the sector for more than a century. The largest French establishments **all operated out of Paris’ powerful centre, near the Banque de France and the Palais Brongniart stock exchange**. Among the most notable buildings from this period are 14 rue Bergère, opened in 1881 as headquarters for the Comptoir national d’escompte de Paris and today home to BNP Paribas Asset Management. The building at 3 rue d’Antin was built in 1872 as headquarters for the Banque de Paris et des Pays-Bas. In 2000 it became the operational headquarters for BNP Paribas. The “Silver Palace” on the corner of the boulevard des Italiens and the rue de Choiseul, was fated for a different destiny. Opened in 1878, the longstanding headquarters of Crédit Lyonnais was ravaged in 1996 by a devastating fire. It was then sold and became, under the new name of Centorial, one of Paris’ main business centres. Today it is used by major international finance companies (BlackRock, MUFG).

The geography of the finance sector took more than a century to change, but today it has been almost completely transformed. **While private banks, investment banks and foreign banks are still solidly established in the CBD**, major French banks have gradually left the centre of Paris, though several still maintain showcase offices there. Several such movements took place in the 1970s and 1980s in other Paris neighbourhoods and certain sectors in the western suburbs (Tour Crédit Lyonnais in 1973 in La Défense, Crédit Agricole in 1978 in Saint-Quentin).

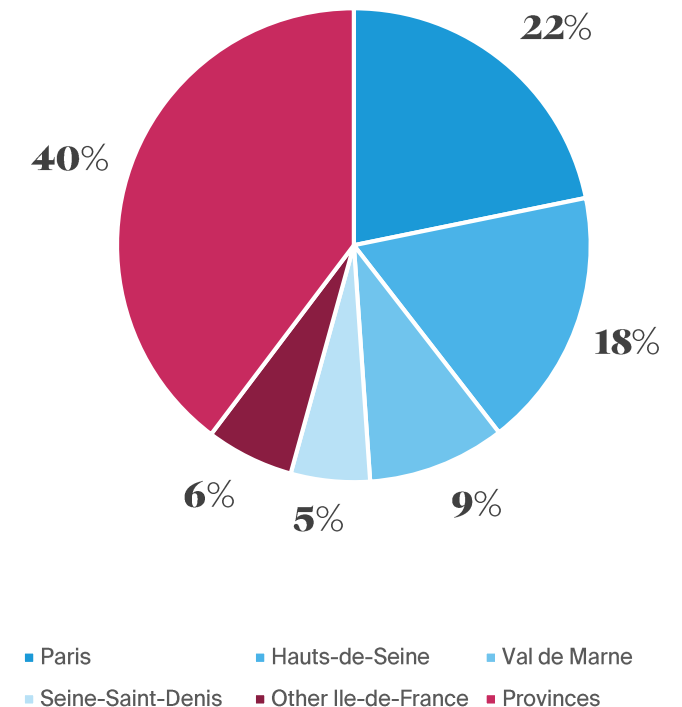
But it was in the 1990s and 2000s that the geography of major French banks really changed. As the sector became more international, mergers and the creation of large groups (BNP Paribas in 1999, etc.) spurred major players to look outside the centre of Paris for new office space which was larger, less expensive and more functional. New bank sectors emerged in Paris, first in the 12th and then the 13th. At the same time the Ministry of Finance moved to Bercy (1988), and several large-scale urban projects (Bercy-Gare de Lyon, Seine Rive Gauche, Métro line 14, etc.) were constructed.

Outside Paris, it was the western suburbs which were shown preference. Société Générale moved to La Défense in the mid-90s then opened several offices in Fontenay-sous-Bois, simply following the route of the RER suburban A train. Other districts gradually came into being, such as the buildings let by BNP in north-eastern Paris and the inner suburbs (Paris 19th, Pantin, Montreuil), by Crédit Agricole in Montrouge and by LCL in Villejuif. Moreover, several BPCE entities moved to Val de Marne (Charenton, Joinville, etc.), near the group’s main Paris offices (12th and 13th).

In recent years (2015–2019) these major sectors have consolidated and now constitute the new bank geography of Île-de-France. For example, Société Générale recently let the Sakura building in Fontenay-sous-Bois. Crédit Agricole recently let L’Académie in Montrouge, where the headquarters of CACIB were also transferred. Crédit Agricole also deepened its roots in Saint-Quentin-en-Yvelines, where the Group’s technology activity (IT, payments, etc.) is now based.

Île-de-France
60%
of total French
bank workforce

Bank sector workforce
in France in 2018



Source: French Banking Federation

Major French banks

Important dates | Property transactions and context

1970-1990 The beginnings

- 1972 Opening of Crédit Agricole IDF head office at 26 quai de la Rapée (12th)
- 1973 Opening of Tour Crédit Lyonnais in La Défense
- 1977 Opening of central segment of RER line A (Auber-Nation) and the new branch connecting Noisy-le-Grand
- 1982 The Bercy district is chosen for the new location of the Ministry of Finance, previously in the Louvre
- 1988 First studies on the development of the “Seine Rive Gauche” neighbourhood (Paris 13th)

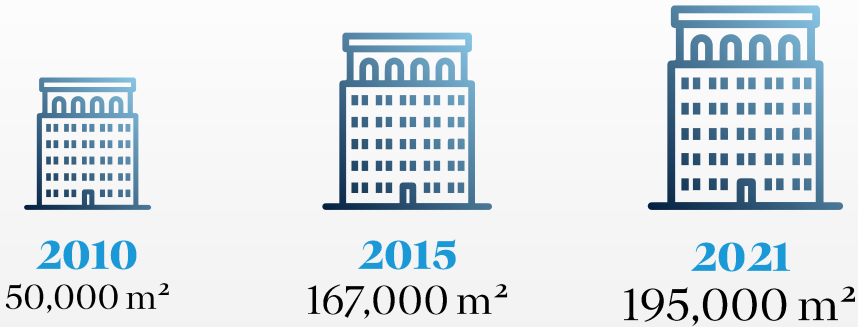
1990-2010 A new geography takes form

- 1995 Société Générale moves to La Défense, at the same time new sites are developed in Fontenay-sous-Bois
- 1996 A fire ravages the Crédit Lyonnais headquarters on the boulevard des Italiens (today Le Centorial)
- 1999 BNP takes over Paribas and forms the BNP Paribas Group
- 2001 The Ministry of Finances moves some departments to Montreuil and relocates other departments to Noisy-le-Grand in 2004 and 2007
- Merger of Crédit Agricole and Crédit Lyonnais
- 2004 Caisse d’Épargne lets its first buildings in the Seine Rive Gauche
- 2007 Beginning of the global financial crisis
- 2009 LCL lets its first buildings in Villejuif
- Crédit Agricole begins development of the Montrouge campus
- Merger of Banque Populaire and Caisse d’Épargne networks and creation of BPCE Group

Since 2010 Era of consolidation

- 2015 Opening of new BNP Paribas campus in the 19th (Claude Bernard ZAC)
Beginning of construction of Grand Paris Express
- 2016 The UK votes in favour of Brexit by referendum of 23 June
- 2017 Natixis/BPCE lets the Tours Duo, consolidating its presence in the 13th
- 2019 Société Générale lets 30,000 m² in Sakura in Fontenay-sous-Bois
Crédit Agricole (CACEIS) lets 28,000 m² in L’Académie in Montrouge
Previously based in London, the European Banking Authority (EBA) moves to La Défense

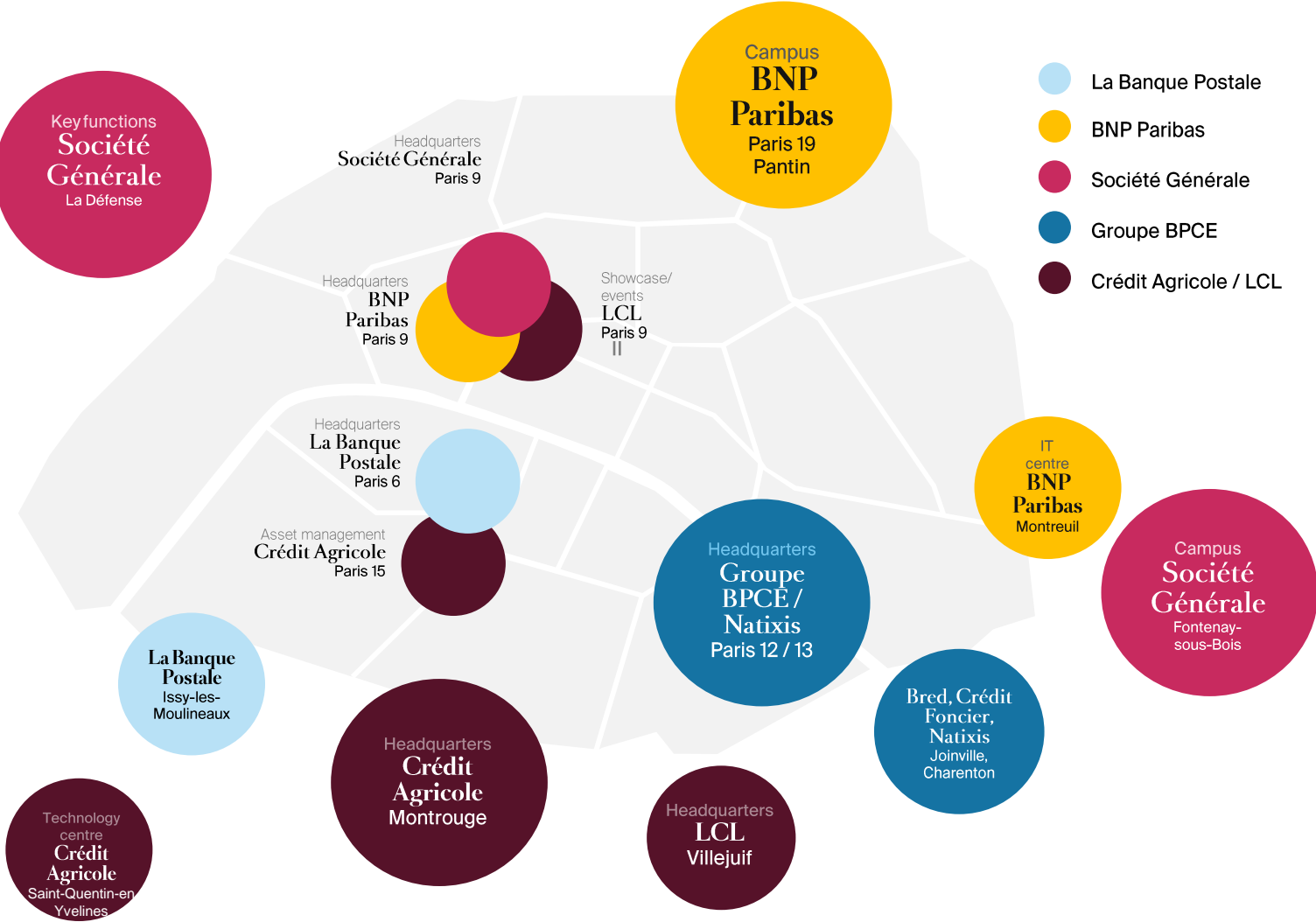
CRÉDIT AGRICOLE IN MONTRouGE
A GROWING FOOTPRINT
Office space occupied by the group



Sources: Knight Frank/Crédit Agricole

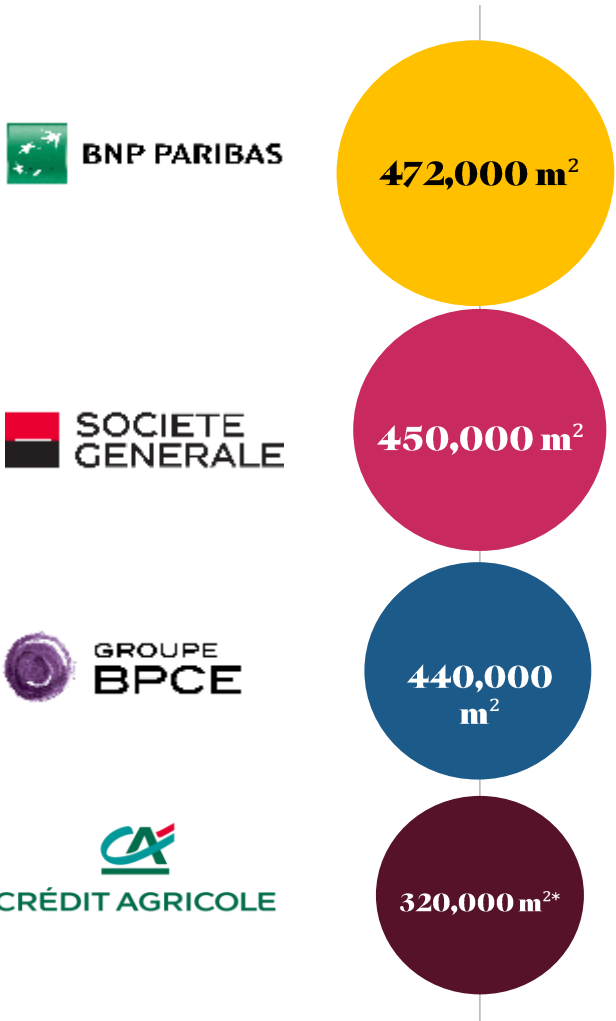
Major French banks

Principal locations of major French banks in Île-de-France



Banks that have rented the most office space in the Greater Paris region

Between 2000 and 2019 (Q3)



Source: Knight Frank / *Plus 161,000 m² incl. the sites let during this period by LCL, a subsidiary of Crédit Agricole

Major French banks

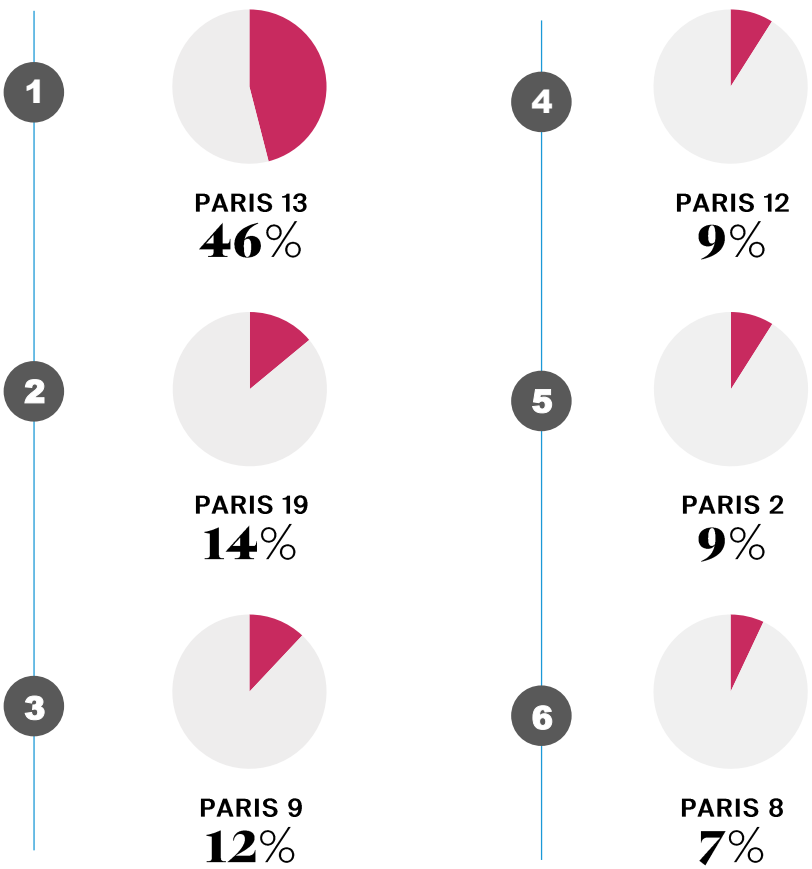
The 13th arrondissement dominates activity in Paris

EXAMPLES OF LARGE DEALS IN PARIS

Year	Lessee	Address	Area (m²)
2017	NATIXIS	TOURS DUO, PARIS 13	87,000
2016	BNP PARIBAS	MILLENAIRE (1 et 4), PARIS 19	47,390
2004	CAISSE D'ÉPARGNE	AVANT SEINE, PARIS 13	42,500
2010	BNP PARIBAS	BOULEVARD MACDONALD, PARIS 19	41,000
2011	BNP PARIBAS	BOULEVARD MACDONALD, PARIS 19	24,200
2009	CAISSE D'ÉPARGNE	ATHOS, PARIS 13	23,900
2004	CAISSE D'ÉPARGNE	ARC DE SEINE, PARIS 13	21,600
2006	NATIXIS	LE LUMIÈRE, PARIS 12	19,500
2005	CACEIS	1-3 PLACE VALHUBERT, PARIS 13	18,900
2016	NATIXIS	ÉLÉMENTS, PARIS 13	14,800
2016	BPCE	FRANCE AVENUE, PARIS 13	14,800
2003	CRÉDIT LYONNAIS	LE CENTORIAL, PARIS 2	14,400
2006	BNP PARIBAS	PALAIS DE HANOVRE, PARIS 2	12,700
2006	CAISSE D'ÉPARGNE	PARC AVENUE, PARIS 13	12,000
2000	BNP PARIBAS	SEINERGY, PARIS 13	11,000

Source: Knight Frank

Take-up > 5,000 m²
by French banks in Paris
By arrondissement between 2000 and 2019 (Q3)



Source: Knight Frank/other arrondissements = 3%

Major French banks

...and the Hauts-de-Seine suburbs

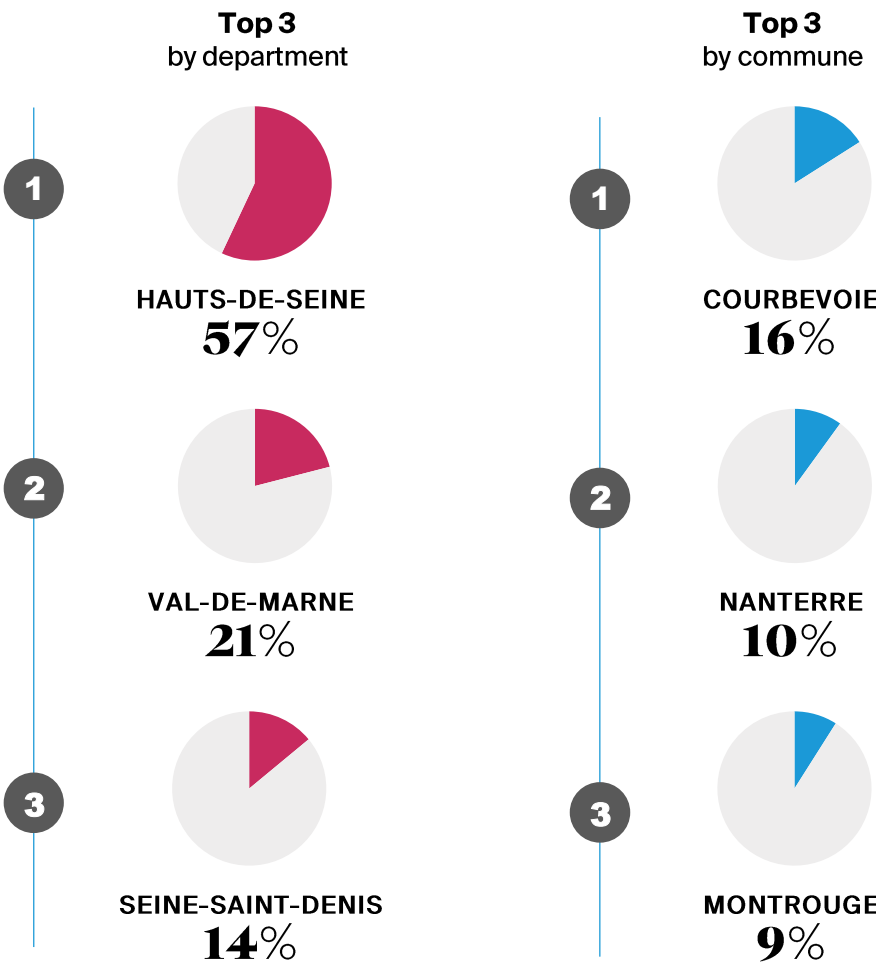
EXAMPLES OF LARGE DEALS IN ÎLE-DE-FRANCE

Year	Lessee	Address	Area (m²)
2011	SOCIÉTÉ GÉNÉRALE	LES DUNES, FONTENAY-SOUS-BOIS (94)	76,000
2009	CRÉDIT AGRICOLE	EVERGREEN, MONTROUGE (92)	71,700
2006	SOCIÉTÉ GÉNÉRALE	TOUR GRANITE, NANTERRE (92)	66,000
2012	CRÉDIT AGRICOLE	EVERGREEN, MONTROUGE (92)	64,000
2001	NATEXIS	LE LIBERTÉ 2, CHARENTON (94)	51,000
2005	BNP PARIBAS	LES GRANDS MOULINS, PANTIN (93)	46,500
2008	SOCIÉTÉ GÉNÉRALE	BASALTE, NANTERRE (92)	42,800
2005	DEXIA	CBX, COURBEVOIE (92)	38,300
2019	SOCIÉTÉ GÉNÉRALE	SAKURA, FONTENAY-SOUS-BOIS (94)	30,000
2002	CRÉDIT FONCIER	RIVES DE PARIS, CHARENTON (94)	29,500
2019	CRÉDIT AGRICOLE	L'ACADÉMIE, MONTROUGE (92)	28,000
2001	BNP PARIBAS	LE MÉLIES, MONTREUIL (93)	26,000
2003	CRÉDIT AGRICOLE	EX LIBRIS, COURBEVOIE (92)	25,800
2008	LCL	METROPOLITAN, VILLEJUIF (94)	17,800
2014	BRED	URBAGREEN, JOINVILLE LE PONT (94)	17,700

Source: Knight Frank

Take-up > 5,000 m²
by French banks in the suburbs

Geography between 2000 and 2019 (Q3)



Source: Knight Frank

The background of the slide is a dark blue, blurred image of a financial candlestick chart. The chart features blue and white candlesticks with vertical lines indicating price ranges. A thin, light blue horizontal line crosses the chart. A diagonal white line runs from the bottom left towards the top right, dividing the right side of the slide. On the far left, a portion of a digital display is visible, showing some numbers and a small icon.

4

The finance
sector

The finance sector
and the Île-de-France office market

Investment banks and
international finance

Investment banks and international finance

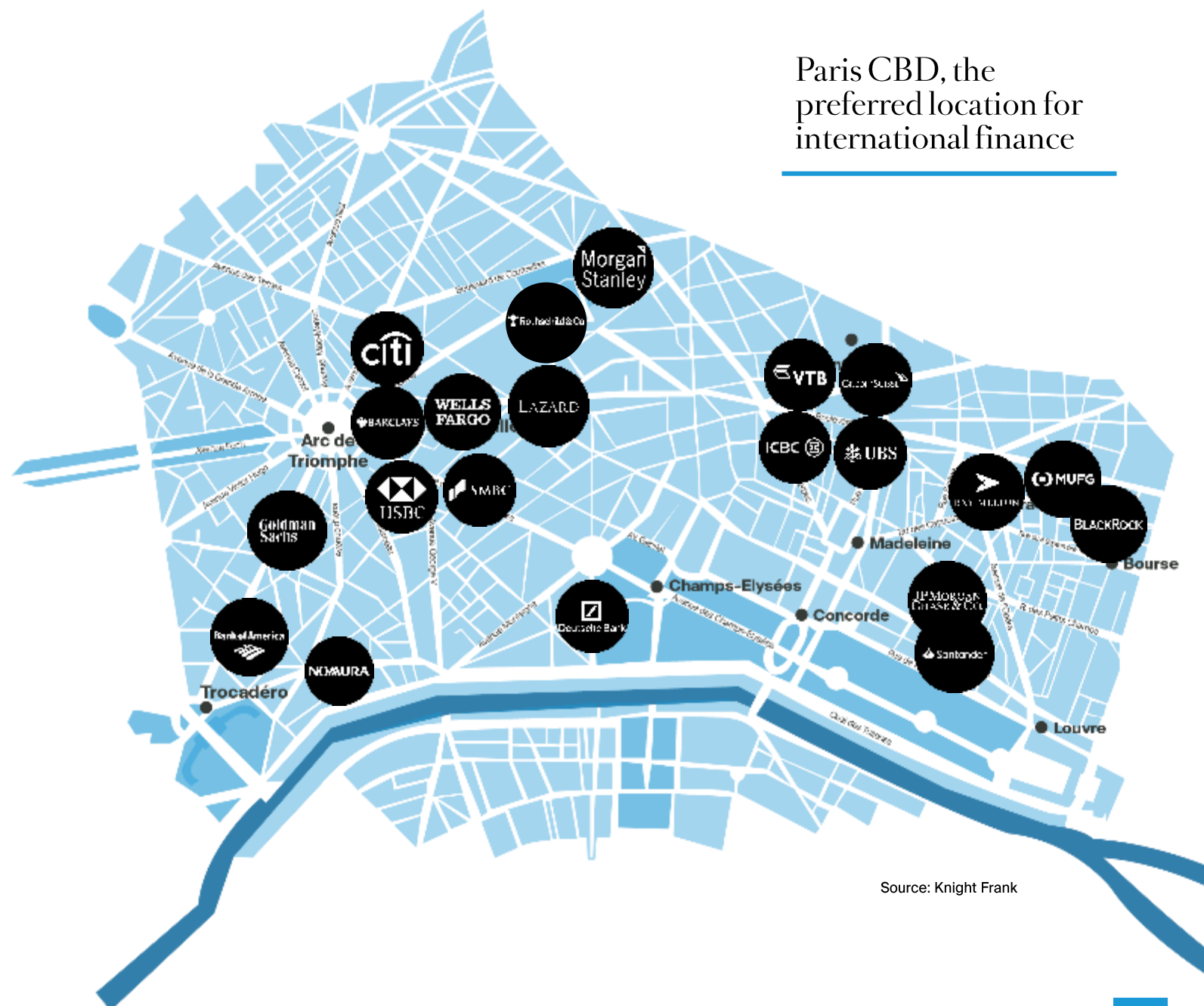
Captive occupiers

While the geography of major French banks has changed dramatically over the past few decades, the map of international finance (investment bank, asset management, brokerage, etc.) remains virtually unchanged. With fewer employees, and with their own activities and clients, these financial firms have specific needs and other property strategies than those of French banks. The need to be close to their clients, to provide attractive meeting rooms and offices, and to have prestigious addresses results in an almost **exclusive attachment to the Paris CBD market**. JP Morgan provides one of the best examples, as the bank bought its headquarters in 1916 from the heirs of the Comtesse de Trédern, the celebrated Hôtel de La Fare mansion at 14 place Vendôme.

While merchant banks, investment banks and foreign banks are captive and very attached to their addresses, they nonetheless carry out significant transactions almost every year within the CBD. These transactions are large not only for the rental values paid for the most prestigious trophy assets, but also for their size. **The most recent example is Lazard Frères**, which in 2018 let a little over 10,000 m² at 173 boulevard Haussmann. In 2017, Bank of America stood out by letting a similar area at 49–51 rue La Boétie for its post-Brexit trading hub.

The giants Washington Plaza, Capital 8, Cézanne Saint-Honoré, Vendôme Saint-Honoré, Le Centorial, Paris Trocadéro, etc. are **all choice targets for large international financial groups**. Some were restructured at the turn of the century, when French banks were leaving Paris. Since then they have regularly been the theatre for small and medium-sized deals.

Paris CBD, the preferred location for international finance



Source: Knight Frank

Investment banks and international finance

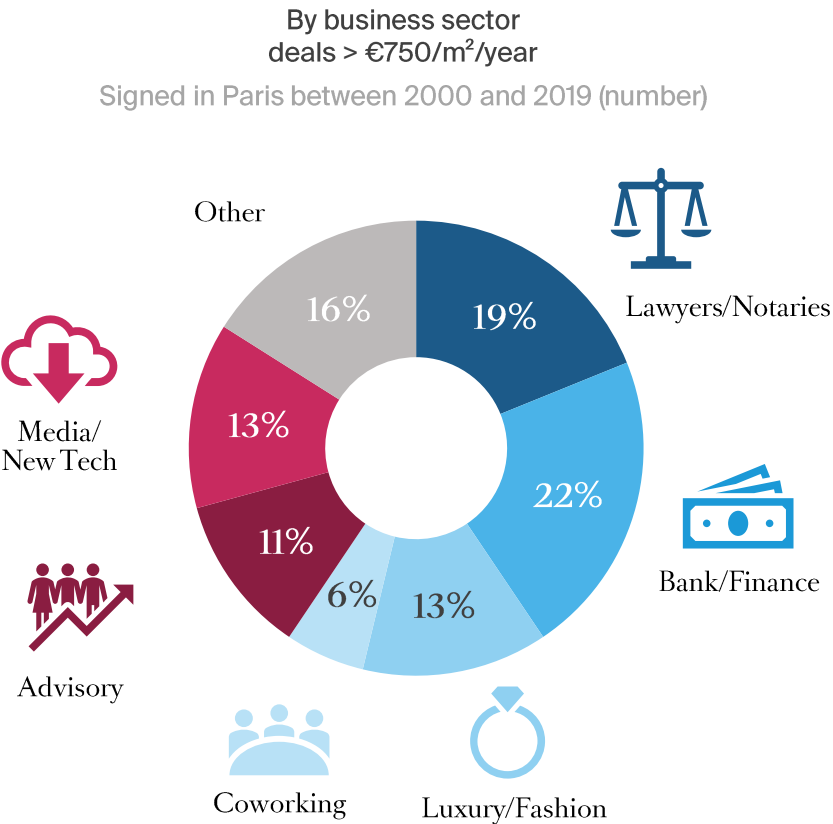
Few transactions of more than 5,000 m²

EXAMPLES OF LARGE DEALS SINCE 2010

Year	Lessee	Address	Area (m²)
2018	LAZARD FRERES	173 HAUSSMANN, PARIS 8	10,900
2015	EXANE	#CLOUD, PARIS 2	10,700
2017	BANK OF AMERICA	49-51 RUE LA BOÉTIE, PARIS 8	9,500
2011	DEUTSCHE BANK	23-25 AVENUE FRANKLIN ROOSEVELT, PARIS 8	7,200
2010	BARCLAYS	ORIGAMI, PARIS 8	4,900
2014	CRÉDIT SUISSE	86 BOULEVARD HAUSSMANN, PARIS 8	4,600
2015	EURAZEO	MOST, PARIS 17	3,900
2017	BRIDGEPOINT	21 AVENUE KLÉBER, PARIS 16	3,300
2017	VIEL ET CIE	VENDÔME SAINT-HONORÉ, PARIS 1	3,000
2015	CITIBANK	ÉTOILE SAINT-HONORÉ, PARIS 8	2,700
2014	ROTHSCHILD & CIE	CAPITAL 8, PARIS 8	2,000
2018	WELLS FARGO	CÉZANNE SAINT-HONORÉ, PARIS 8	1,900
2016	ARDIAN	VENDÔME SAINT-HONORÉ, PARIS 1	1,800
2016	GRUPO SANTANDER	VENDÔME SAINT-HONORÉ, PARIS 1	1,800

Source: Knight Frank

The highest market values



Source: Knight Frank

Investment banks and international finance

The Lazard Frères example

In 2020, Lazard Frères will move into its new headquarters of 10,500 m² at 173 Haussmann (Paris 8th), not far from its current headquarters between place Saint-Augustin and the Arc de Triomphe. This transaction was finalised a few months ago. It illustrates the strategic stakes which office properties represent for major financial groups based in the heart of the Paris CBD.

An address

The choice of 173 Haussmann, owned by Invesco, is above all for the prestige of the address, with its stunning location in the heart of the 8th arrondissement. Once delivered, this corner building will serve as a veritable urban beacon and contribute to the bank's brand image.

An architecture

The architecture was handled with great care. The new headquarters of Lazard Frères will combine Haussmannian tradition with features of a contemporary tertiary building (i.e. high rise, glass roof with a view over Paris, etc.). The architect (Philippe Chiambaretta, Agence PCA-Stream) focused on the quality of life of occupiers, who will have unprecedented work space. Clients will be welcomed in several reception areas, so special attention was given to interior design. Internal needs (synergies among employees) as well as external

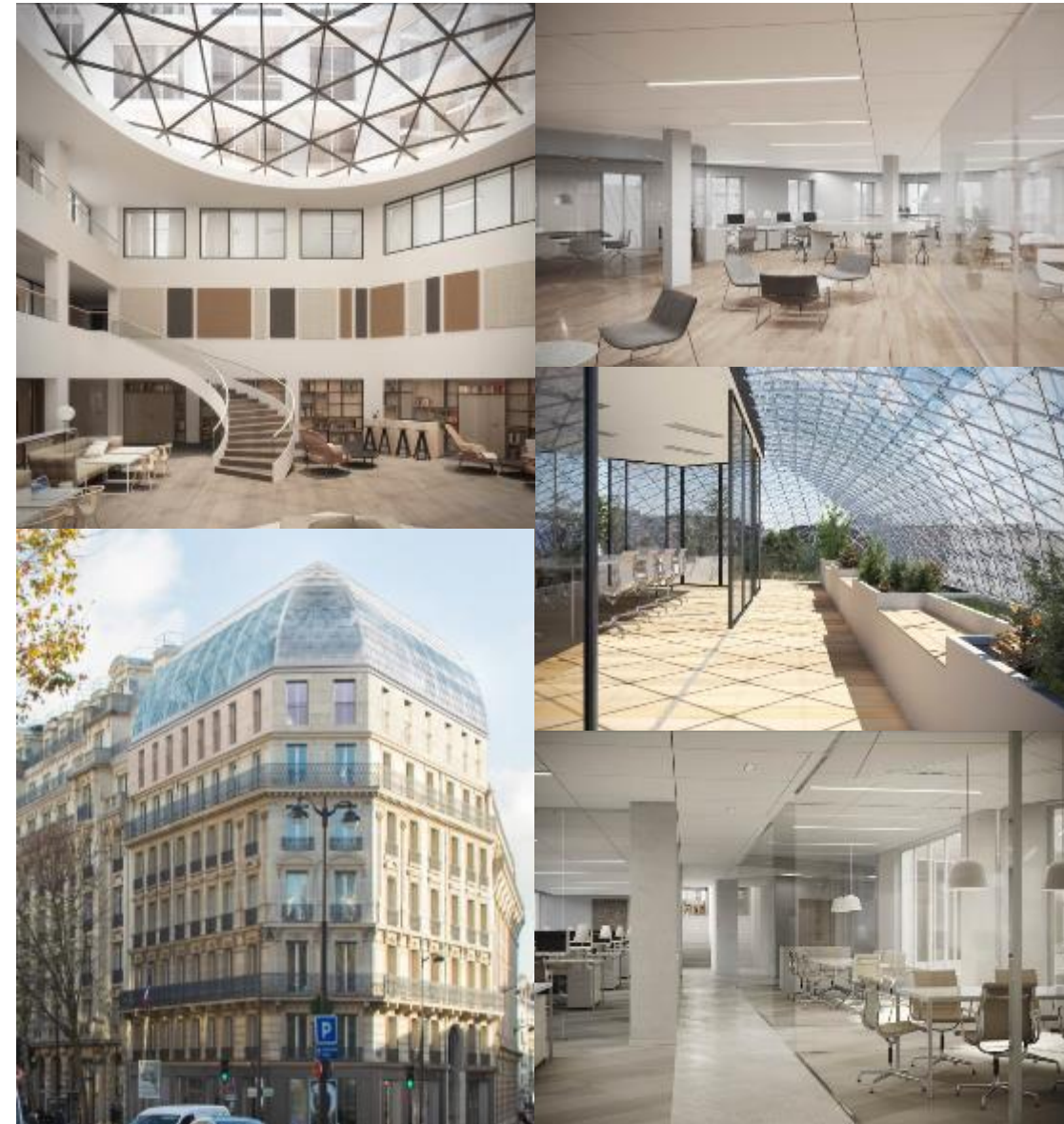
imperatives (prestigious image for clients) are at the heart of the architectural challenge.

A philosophy

The Lazard Frères example exemplifies the desire to acknowledge changes in work habits and the concerns of employees in the digital age. Work space has become a strategic part of innovative HR policy and a tool for promoting employee loyalty.

“It is no longer enough to simply build space. Today we must enhance the work experience and adapt to new needs. The open-plan offices are flexible and modulable, with abundant light and pleasant movement between floors. Carefully designed open spaces provide an invitation to social and professional interaction.”

PHILIPPE CHIAMBARETTA



P. Chiambaretta Architecte

Investment banks and international finance

Brexit: What impact on the Paris financial sector?

For many months the possibility of a no deal has been of significant concern for companies based in the UK. Because of the uncertainty surrounding the outcome, more and more companies are moving capital and jobs to various EU countries. Although many business activities are concerned (media, pharma, etc.), **the finance sector is the sources of the vast majority of the 385 projects (potential and confirmed) recorded by Knight Frank since the June 2016 referendum.** In question is the expected loss of the European passport, currently enjoyed by nearly 5,500 companies (some are non-British) which use London as gateway to the European Union.

Given the context, large European cities are putting their best foot forward to attract Brexit exiles, highlighting their dynamic economy, friendly tax policies and quality of life. With more than 100 projects, **Dublin is far ahead in this race to attract companies, with Luxembourg (66 projects) in second place. Paris (51 projects) is neck and neck with Amsterdam but ahead of Frankfurt (42 projects).** Analysis of job creation for each city is **favourable to Paris.** Nonetheless the number of employees involved remains modest – confirmation that so far Brexit has created only a small number of jobs in the EU, with few financial jobs lost in London.

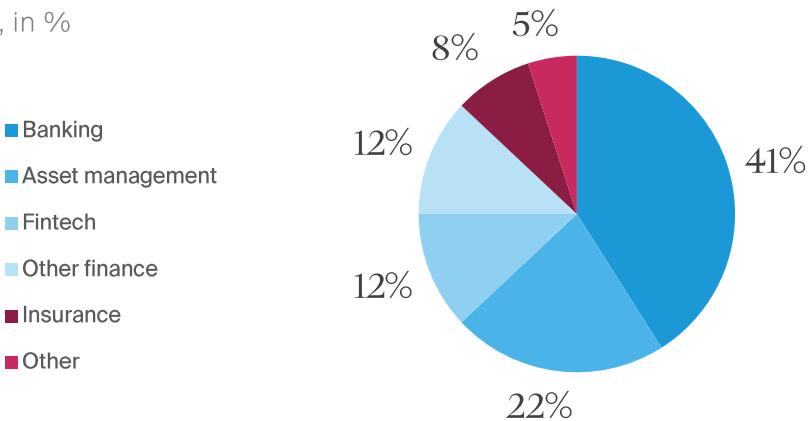
These changes may accelerate, depending on the solution found by UK and European leaders. Whatever the outcome, effects will be felt by the economy and property market of European capitals, and in their relations with the City.

“[In the event of Brexit] there will not be a single City for the continent, but rather an integrated network of specialised financial centres. [...] Paris has all the qualities necessary to become the market hub in this new European constellation.”

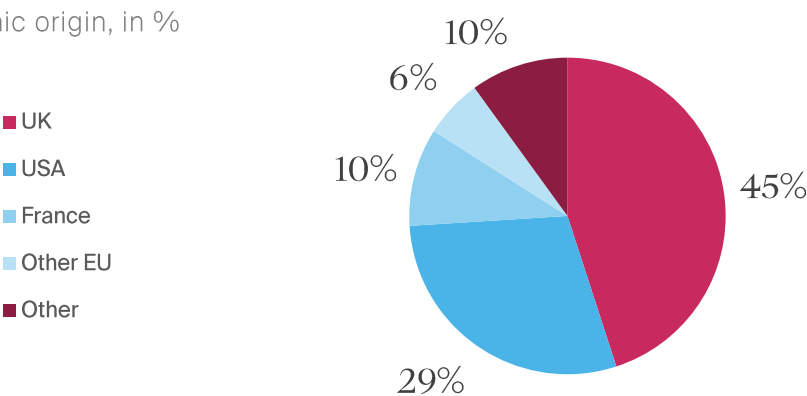
FRANÇOIS VILLEROY DE GALHAU,
Governor of the Banque de France,
23 November 2018

Analysis of Brexit-related moves in Paris*

By activity, in %



By geographic origin, in %



Source: Knight Frank / *All transactions (confirmed and potential) between mid-2016 and September 2019

Investment banks and international finance

Brexit: What impact on the Paris finance sector?

Paris is undeniably a choice destination. The efforts undertaken to improve the image of France, as well as the conditions for welcoming companies, seem to be paying off. It is the finance sector, in its various forms, which is the focus of the vast majority of Brexit-related deals in Paris. Banking is very well represented and accounts for more than 40% of all projects, ahead of asset management, brokerage and fintech. Moreover, British and American companies drive three-quarters of the transactions carried out in Paris. In general, companies that opt for Paris have been there for many years. As they already have offices there, they are often able to expand existing space to make room for repatriated colleagues from the UK. **It was partly for this reason that there have been relatively few office lettings in Île-de-France related to Brexit, though a hard Brexit could change this.**

In the event of a “no deal” Brexit, could the shortage of available space – particularly pronounced in the Paris CBD, where vacancy rates remain close to 2% – disadvantage Paris

in the competition to attract companies? Nothing is less certain. The trend of property supply shortage is not specific to the Paris market, and affects many other European cities. Furthermore, office supply in the Paris region is much larger than in other Top 5 cities, and offers several alternatives to the CBD market.

Although the CBD remains very desirable among financial firms, the La Défense district is an obvious alternative. In the months to come this market will be boosted by the letting of several large, high-quality office complexes, which could capture some of the Brexit-related deals. La Défense offers another serious argument, as it is already home to several large companies and financial institutions (Société Générale, Euronext, HSBC, etc.). It can also boast of a new world-class lessee since last June, when the European Banking Authority moved into the Europlaza Tower.

Examples of Brexit-related lettings in Paris/IDF



49-51 rue la Boétie | Paris 8
BANK OF AMERICA
9 500 m² | **Q4 2017**



Cézanne-Saint-Honoré | Paris 8
WELLS FARGO
1,900 m² | **Q3 2018**



Tour Europlaza | La Défense
EUROPEAN BANKING AUTHORITY
5,300 m² | **Q3 2018**



Le Centorial | Paris 2
MUFG
1,200 m² | **Q4 2018**

Source: Knight Frank

The background of the slide is a dark blue, out-of-focus image of a financial trading floor. On the left, a portion of a computer monitor is visible, displaying a candlestick chart with blue and white bars. A white line, likely a moving average, is drawn across the chart. To the right of the chart, another monitor displays a line graph with a fluctuating white line. The overall scene is dimly lit, with the primary light source being the screens, creating a professional and high-tech atmosphere.

5

The finance
sector

Profound changes

Profound changes

Employees and clients: contrasting challenges

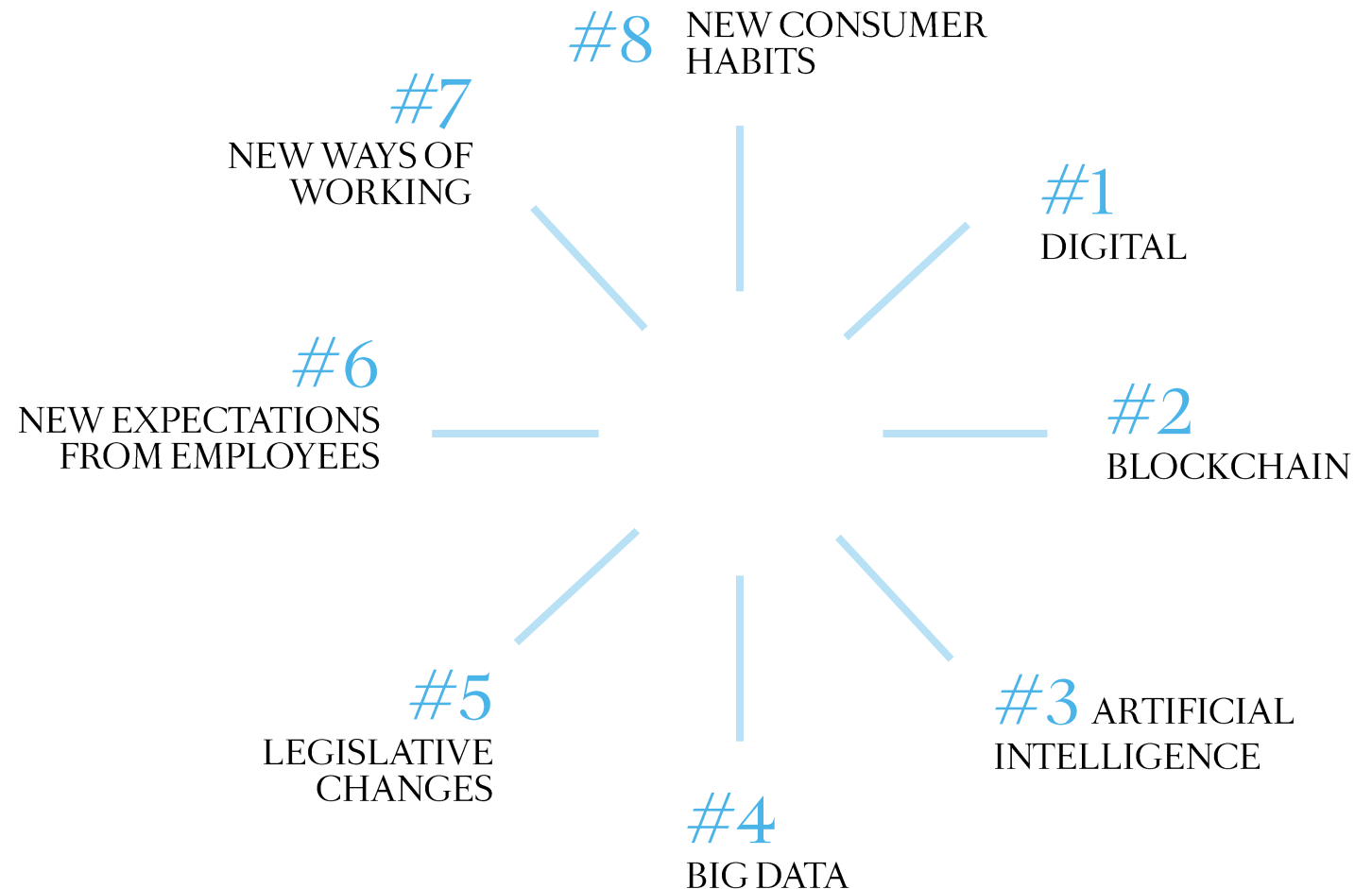
Big data, artificial intelligence, open banking, online services: technologies are transforming finance and **redefining the hierarchy of various types of employees.**

While the challenges are conditioned by the type of bank, each institution is faced with **the dual imperative of extreme speed and personalisation** for both retail and business clients.

It is vital that new digital tools, as well as new strategies for marketing and sales, be created in order for banks to remain competitive and **anticipate technological waves to come** (blockchain). These tools are partly inspired by retail (omni-channels, personalisation, seamlessness, transparency, etc.).

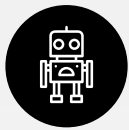
KEY FACTORS IN THE TRANSFORMATION OF THE FINANCIAL SECTOR

Source: HTS Consulting/Observatoire des métiers de la banque



Profound changes

AI and the bank sector



Chatbot

Client relations, risk analysis for each client



Back Office

Risk modelling and capital optimisation



Trading application

Analysis of weak signals



Regulatory application

Detection of inappropriate trading activity

Source: France Stratégies, "Artificial Intelligence and Work" (March 2018)

Which context? Which challenges?

Firms in the bank sector have access to large quantities of data, which exponentially increase opportunities in artificial intelligence. Now that bank/client relations have been digitised, AI is being used for basic operations. However, initial feedback from bank professionals recommends preserving human contact for the most complex cases, such as for clients uncomfortable with technology (23% of the population, according to HTS Consulting).

Robots in banking

As in many sectors, the presence of robots in banking has grown in recent years. For example, Société Générale Private Banking launched Synoé at the end of 2018, a digital solution for personalised advice from a dedicated online space. However, a team of experts oversees the platform and is available for consultation by clients. BNP Paribas has also developed an automated financial management service for wealthy clients. This service uses the technology of Gambit Financial Solutions, a Belgian fintech bought by BNP Paribas AM in 2017. It delegates life insurance management to a robot capable of targeting investments, defining financial objectives, measuring risk, etc.

Opportunity or threat?

According to McKinsey, 85% of back-office tasks could be automated. Bank employment becomes a major consideration when it is understood that certain jobs will one day be managed entirely by technology. Natixis recently announced that transactions will be fully automated by 2020. Already technology has lowered the average transaction time from 40 to 3 minutes.

Banks have two major strategies for AI: on the one hand reducing the number of employees, and on the other recruiting employees comfortable with data and training "enhanced advisors" capable of working with robotic software. In merchant banks in particular, "the growing sophistication of robo-advisors will change how products are sold and require traditional advisors to upgrade their skill set" (Deloitte, "The Birth of Fintech", 2017).

Profound changes

Human resources under pressure

Human resource management faces **two challenges**:

1. **The first is related to the difficulties of large bank groups and to the rapid development of new, highly flexible firms** such as fintech companies, which rely heavily on next-generation job skills. As a result, the recruitment and loyalty development of new talent has become difficult because of the rise in employee mobility and increased resignations by employees with long-term contracts (25% of all resignations in 2014, compared with 39% in 2018, according to the French Banking Federation). This change is in a context where traditional organisation models (vertical management, etc.) are being fundamentally challenged.
2. **The second challenge is related to the implementation of new technologies (robotization, digitisation, artificial intelligence), which completely transform bank business lines and job content.**

The skills and jobs in the bank and financial-services industry are undergoing significant change, **with the hierarchy of various business lines reordered**:

- collection and interpretation of basic information, monitoring and oversight of ordinary operations, and administrative tasks are all in decline;
- management, sales and back-office are being transformed to adapt to new relations between banks and their customers, while employees are expected to meet current and future challenges;
- jobs related to defining and implementing strategies, to data, and to software upgrades and development are very desirable.



Profound changes

Large banks are cutting costs by grouping middle- and back-office employees in open and collaborative workspaces.

This dual dynamic – creating new work spaces to satisfy new needs while controlling costs – encourages banks to regroup in new offices outside Paris (e.g. Crédit Agricole in Montrouge).

The property projects of these banks illustrate the importance of collaborative workspaces: 30% of the Société Générale campus in Fontenay-sous-Bois (Les Dunes) is for collaborative workspaces, compared with 15% on average in the banking sector.

Les Dunes | Sakura Société Générale

Fontenay-sous-Bois (94)



Evergreen | L'Académie Crédit Agricole

Montrouge (92)



The reality

Employees are increasingly versatile and have new expectations. At the same time, bank margins are declining and recruitment is increasingly difficult.

The goal

Creation of workspace that encourages productivity and the dedication of employees.

The strategy

Consider the employee as a customer to be attracted, satisfied and retained, while controlling property costs.

The answer

Provide office space adapted to the changing needs, synergies and well-being of employees.

Profound changes

New types of work space designed to welcome clients differently: the future of bank agencies in question

More and more closings

With foot traffic declining, branches have suffered for years from declining bank margins, rising digitisation of bank operations and competition from new players. While France has one of the densest networks in Europe (55 branches per 100,000 inhabitants, compared with 40 on average in Europe), the total number has fallen from 39,000 in 2010 to around 36,000 in 2018. However, closings are not the only solution for updating the traditional bank branch model. Just as online sales have not destroyed physical stores but instead forced retailers to rethink their strategies for optimising the efficiency of various retail channels, banks are applying new strategies and rethinking customer contact points.

Reinvention of the model

As branches are being closed, several banks are grouping their activities in locations which are larger, more visible and better located, along the lines of flagships of large international retailers. The goal is to “do less but better” by adopting retail codes designed to attract customers by offering them digital, interactive and personalised services in modern, user-friendly locations. To convey an image of change

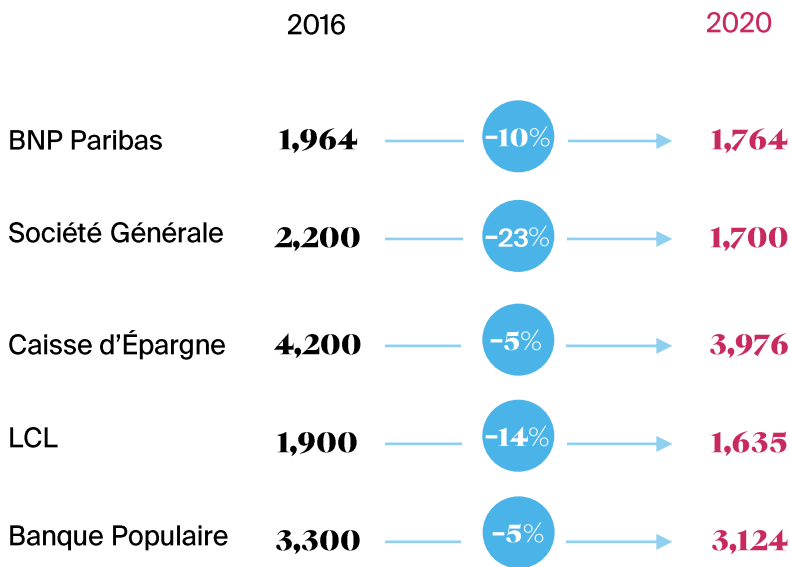
and adaptation to new modes of collaboration, some banks are taking on coworking and flex-office codes, such as the Crédit du Nord branch opened in early 2019 at 28 place Rihour in Lille.

The upmarket trend of bank branch networks is not limited to a handful of showcase flagships. New concepts are being unrolled across France and serve to strengthen customer relations, such as the Agence Active concept launched by Crédit Agricole IDF, or Société Générale’s 120 “pro spaces” to be opened by 2020. As for traditional retailers, banks are adapting to lifestyle changes by extending opening hours. LCL recently tested openings until 8 p.m. in several branches in large French cities. Some imagine scenarios in more isolated zones where services are lacking. Bank branches could play a central role in local life by acting as “multi-service hubs” which provide a wide range of services for health care, culture, etc.*

*Source: Onepoint, “Retail banking: a retail model at a crossroads”

MORE AND MORE BRANCH CLOSINGS

Change in number of branches in France
(estimates provided by banks*)



Sources: Sia Partners / Société Générale
*Estimates could change frequently

A hand holding a smartphone, positioned near a payment terminal. The terminal features a contactless payment symbol, which consists of a circle containing several horizontal lines of varying lengths. The background is a blurred, blue-tinted image of a person's legs in motion. A thin white diagonal line runs from the top right towards the bottom left, separating the image from the text area.

6

The finance
sector

The rapid growth of fintech

The rapid growth of fintech

What is fintech?

Fintech (from “financial technology”) designates startups and SMEs which provide financial services by means of innovative solutions. The first fintechs appeared after the 2008 economic crisis as a technology-based response for re-thinking the finance model.

A favourable context

Fintech companies first appeared in France at the beginning of the decade, but it was in 2015 that the movement really began to take off with more than €100 million raised. Among the conditions favourable to the growth of fintech: a growing mistrust of the general public with regard to traditional financial firms; widespread use of smartphones, with technological progress casting an ever-greater net, thereby placing innovation within reach of almost everyone; an easing of regulatory restrictions in sectors such as payment and financing; and increasingly large investment sources which allow rapid, frequent fundraising.

Record levels of funds raised

While 2018 may have been a record year for French fintech, with €370 million raised (74 rounds), 2019 is set to be even better, with €354 million raised (39 rounds) in the first half alone. Well-known players such as Wynd, Younited Credit, Lunchr, Alan and Finexkap are among the leading fund raisers in 2019.

Fintech financing comes mainly from large institutions (banks and insurers), which encourage the internationalisation of projects. Traditional banks are also setting up coworking spaces and increasing partnerships with startups, such as BNP Paribas and Station F, the Platform58 incubators of La Banque Postale at 50 rue de la Victoire, and “Le Village by Crédit Agricole” at 55 rue La Boétie.

More than

500

Fintech companies in France

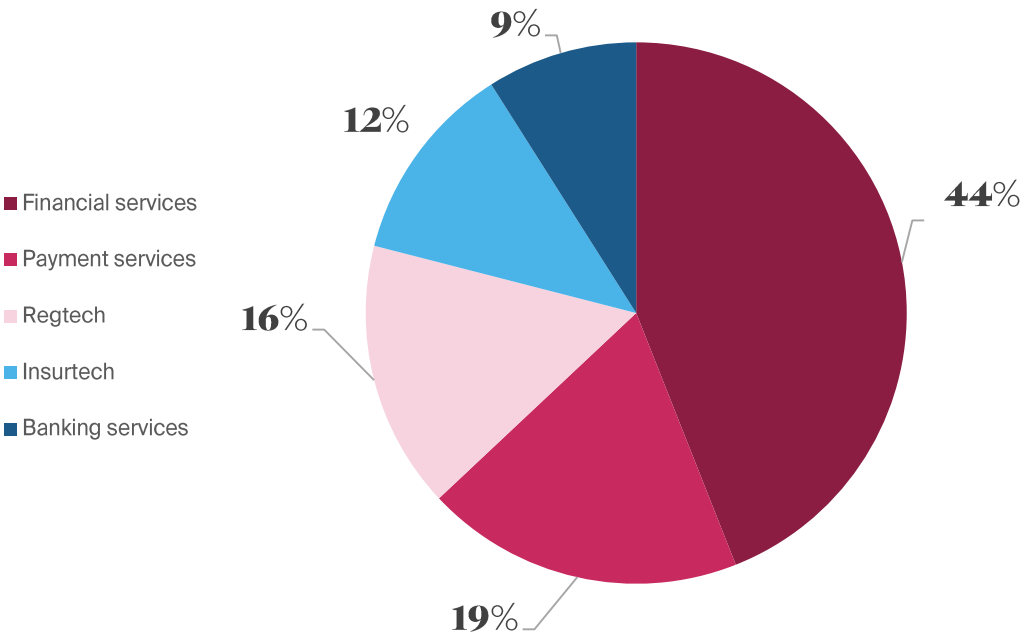
27%

Number up 27% between 2018 and 2019

€354m

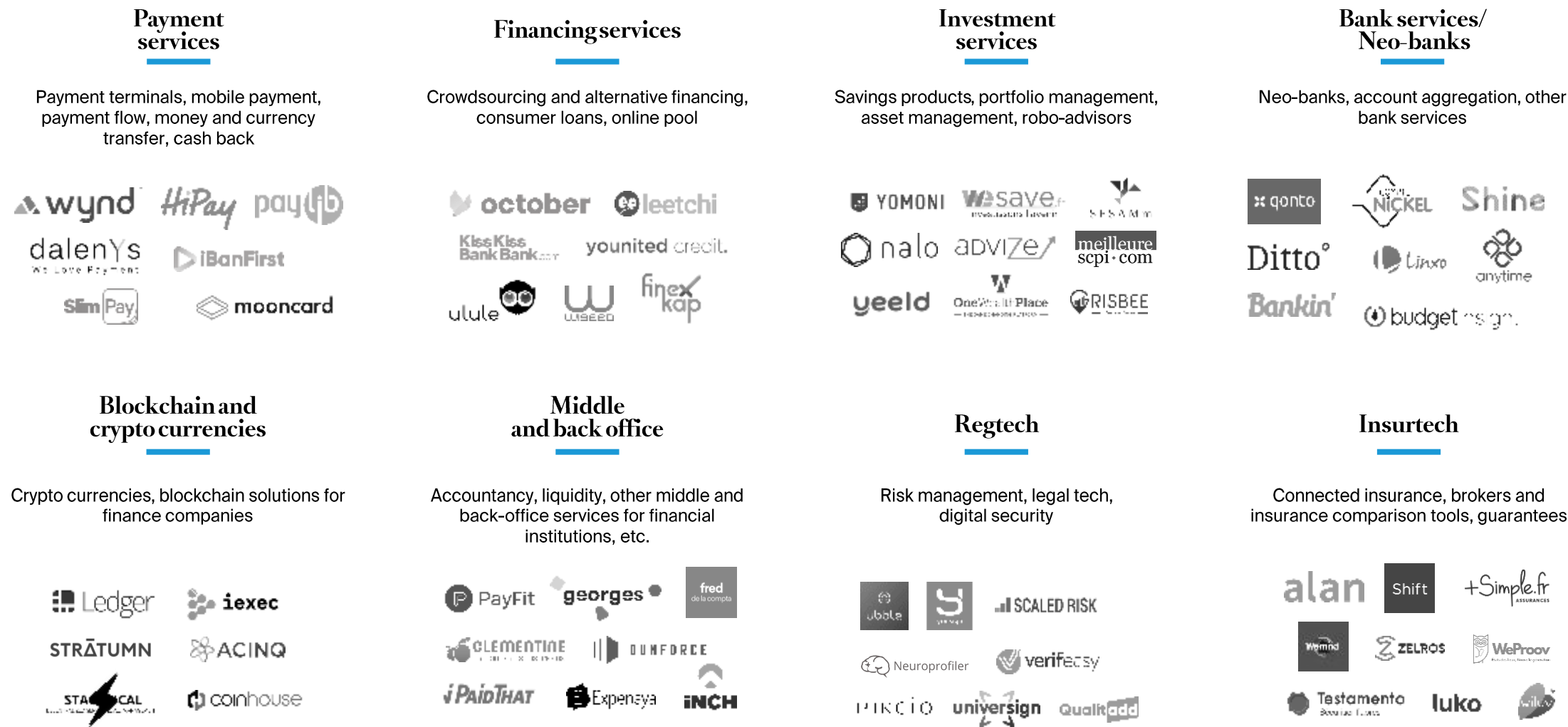
raised in H1 2019 vs. €370m in FY 2018

Fintech by business activity in France in 2019



The rapid growth of fintech

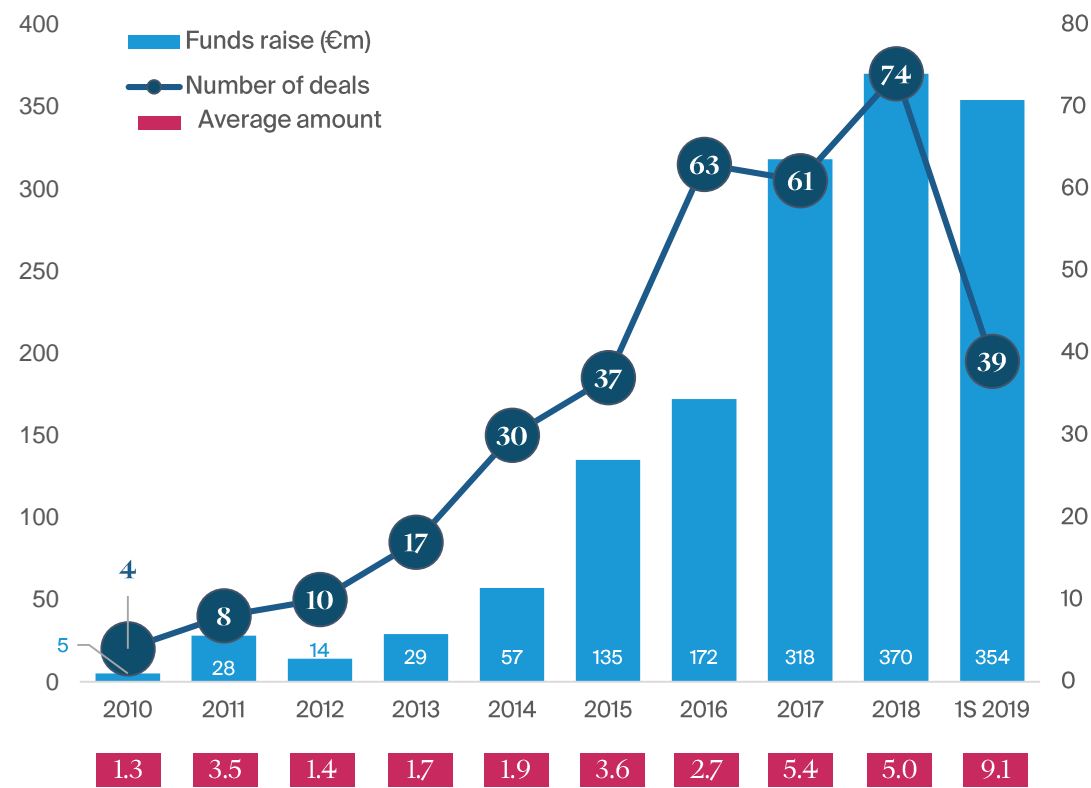
Main French fintech companies and business lines



Sources: KPMG/France Fintech

The rapid growth of fintech

Funds raised by fintech companies in France



Source: KPMG

Principal fundraisings in 2019

COMPANY	TYPE	AMOUNT RAISED (€M)
WYND	PAYMENT SERVICES	72
YOUNITED CREDIT	FINANCING SERVICES	65
SHIFT TECHNOLOGY	INSURTECH	53
ALAN	INSURTECH	40
FINEXKAP	FINANCING SERVICES	39
SPENDESK	PAYMENT SERVICES	35
LUNCHR	PAYMENT SERVICES	30
BANKIN'	BANK SERVICES	20
GEORGES	MIDDLE OFFICE AND BACK OFFICE	10
FAIRMONEY	FINANCING SERVICES	10
PRETTO	FINANCING SERVICES	8
JENJI	MIDDLE OFFICE AND BACK OFFICE	6
MOONCARD	PAYMENT SERVICES	5
SESAMM	INVESTMENT SERVICES	4.4
TRUSTPAIR	REGTECH	4

Source: Knight Frank

The rapid growth of fintech

Traditional banks support the rapid growth of fintech

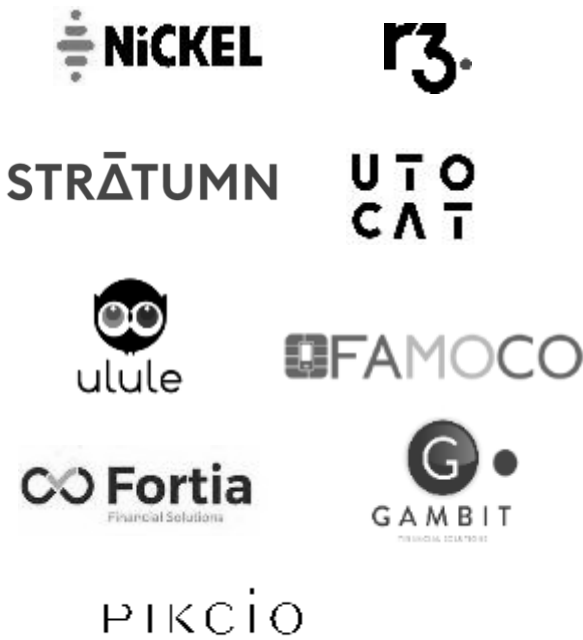
Enthusiasm for fintech is reflected in the strong growth of funds raised. In addition to government aid, which is vital in France for the startup phase, the financing sources are varied.

Beside business angels, venture-capital funds such as Kima Ventures and Partech Ventures are committed to finance startups, as are funds dedicated exclusively to fintech

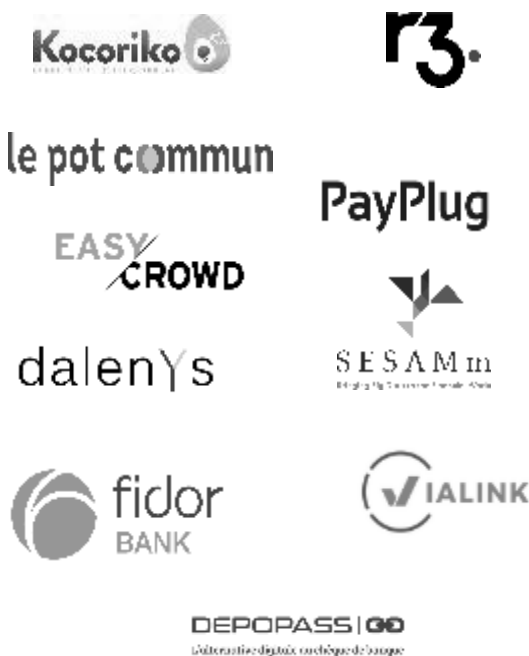
companies. Banks and insurance companies also invest heavily, e.g. BNP Paribas, banks in the BPCE Group, Crédit Mutuel/Arkéa and La Banque Postale.

Examples of stakes of major French banks in fintech startups

BNP PARIBAS



BPCE



CRÉDIT MUTUEL / ARKÉA



Sources: Deloitte/KPMG

The finance sector

The rapid growth of fintech

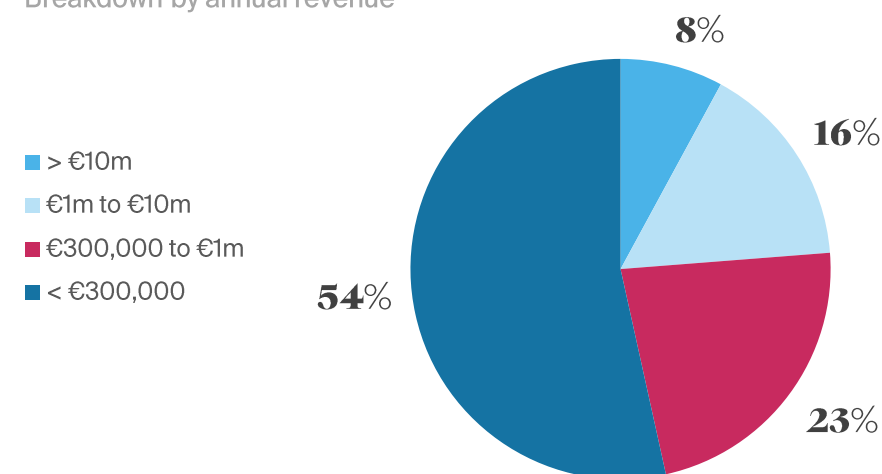
What growth potential for fintech?

The fintech sector comprises more than 500 companies, most of which are small (fewer than 10 employees). 77% have revenue of less than €1 million; only 8% exceed €10 million. The recent closing or liquidation of Monaize, Valoo, Sharepay and Marie Quantier highlight the difficulties of building a profitable model. At cause are low operating margins, less opportunity in activities such as crowdfunding, increasing competition from foreign fintech companies, and competition from traditional networks which have already made the digital transformation.

Although invested amounts continue to grow, they remain relatively low. This restricts the emergence of unicorns (valuation of €1bn+) in France, whereas the UK already has several (TransferWise, Revolut, Monzo, Greensill, OakNorth). Nonetheless a few French companies are growing rapidly, such as October, Younited, Payfit, Shift Technology, Alan, Wynd and Ledger. These companies are all in the Next 40 index. Announced by the French government in mid-September 2019, this new index is intended to encourage the emergence of global leaders. The context is favourable for fintech development. The French ecosystem is increasingly structured, and enjoys rising investment and technological innovations which aid startups to grow. Among the most promising sectors are insurtech, asset management and

regtech. By combining regulations and new technologies, regtech helps companies to meet compliance requirement more efficiently. Finally, the Paris financial market is expected to benefit from Brexit, which could also boost the expansion of fintech in France. There will be fierce competition between European cities and countries (Amsterdam, Brussels, the Baltic states, etc.) to attract structures currently in London. Public authorities are aware of the need to source, welcome and help these companies. One example is Swave, a fintech accelerator created at the end of 2017 by the government and located in the Grande Arche de La Défense.

Fintech in France
Breakdown by annual revenue*



Source: Exton Consulting / *In 2018

Fintech and insurtech in the Next40



Shift





The rapid growth of fintech

Fintech property needs: a solution for each stage in the life cycle

Fintech property needs are not easy to understand, because several criteria (size, maturity, activities) enter into the types of solutions chosen. In addition, these can change rapidly because of the arrival of new companies and sometimes unpredictable entrepreneurial decisions. However, a few major trends can be identified.

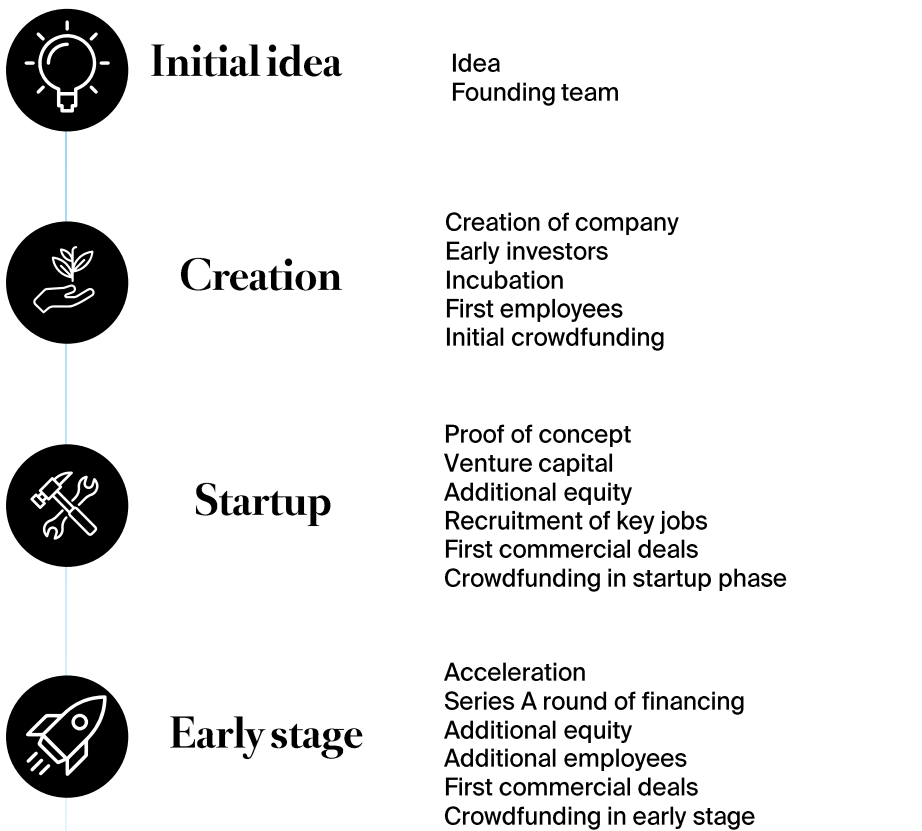
In the creation, startup and early stages, startups are housed in incubators and accelerators. These structures correspond to various stages in the development cycle. Whether public or private, and whether dedicated specifically to fintech, these structures provide numerous advantages, not least **a stimulating work environment**. Other advantages include greater credibility of startups vis-à-vis institutional partners, opportunities to meet other entrepreneurs and form partnerships, practical assistance with various problems (e.g. obtaining bank) and, of course, inexpensive office space.

Swave is one of the largest fintech incubators in Île-de-France. Opened at La Défense in 2017, this incubation platform is financed by the government and by several corporate partners (Société Générale, AG2R La Mondiale). **Major**

banks have also opened spaces dedicated to innovation, such as the Crédit Agricole accelerator (Le Village by CA at 55 rue La Boétie in the 8th) and the Banque Postale incubator (Platform 58 at 58 rue de la Victoire in the 9th). Both are located in neighbourhoods very popular with startups.

The opening in 2017 of the 34,000 m² Station F in the 13th arrondissement created a new startup hub which is outside the Paris hypercentre but inside an area popular with large French banks (BPCE) for the past two decades. Among the more than 30 assistance programmes offered at **Station F**, the programme offered by BNP (in association with the Californian company Plug and Play) involves collaboration with fintech companies in order **to identify innovative solutions to accelerate the digital transformation**.

Life cycle of a startup



Source: PwC, “Study on Startup Financing”, 2017

The rapid growth of fintech

Coworking and own office spaces

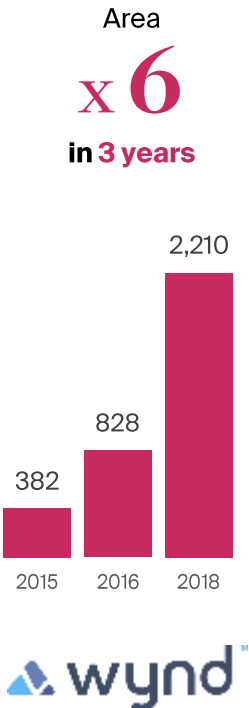
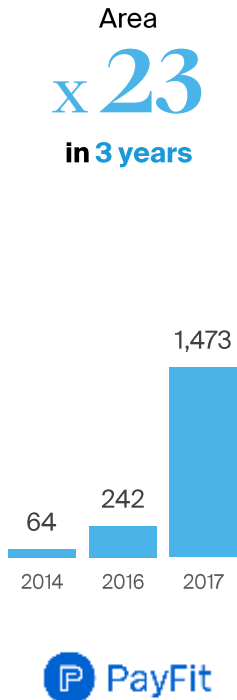
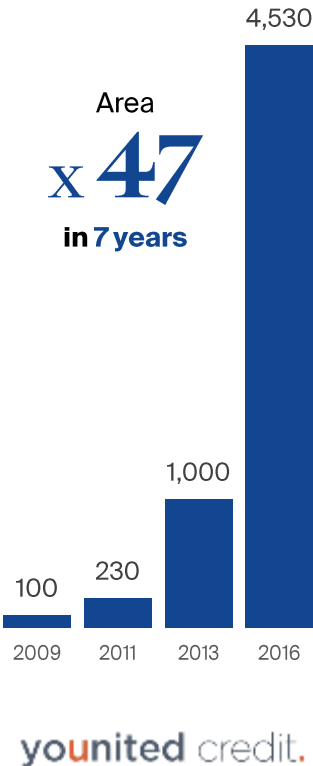
The success of fundraising, the need to grow in France and abroad, and the necessity to hire rapidly all explain **why it is essential for fintech companies to be flexible**. This requirement results in a series of short-term lettings and sub-lettings, which explains the frequent relocations of startups.

Like other companies in new technologies, **fintech companies favours coworking spaces, which are flexible and well adapted to startups**. Fintech contributes to the success of these spaces, which continue to grow across the Paris region (over 160,000 m² let in Île-de-France since the beginning of 2019, after 135,000 m² in 2018 and 100,000 m² in 2017). Most major coworking operators have significant demand from fintech companies. For example, WeWork houses several fintechs at its site of nearly 20,000 m² opened a few months ago at 198 avenue de France in the 13th. The nearby Station F incubator also provides business to WeWork. Other coworking operators include Morning

Coworking, Spaces, Deskéo and StartWay. In collaboration with La Banque Postale, StartWay manages a coworking space in the Platform58 incubator in the 9th arrondissement.

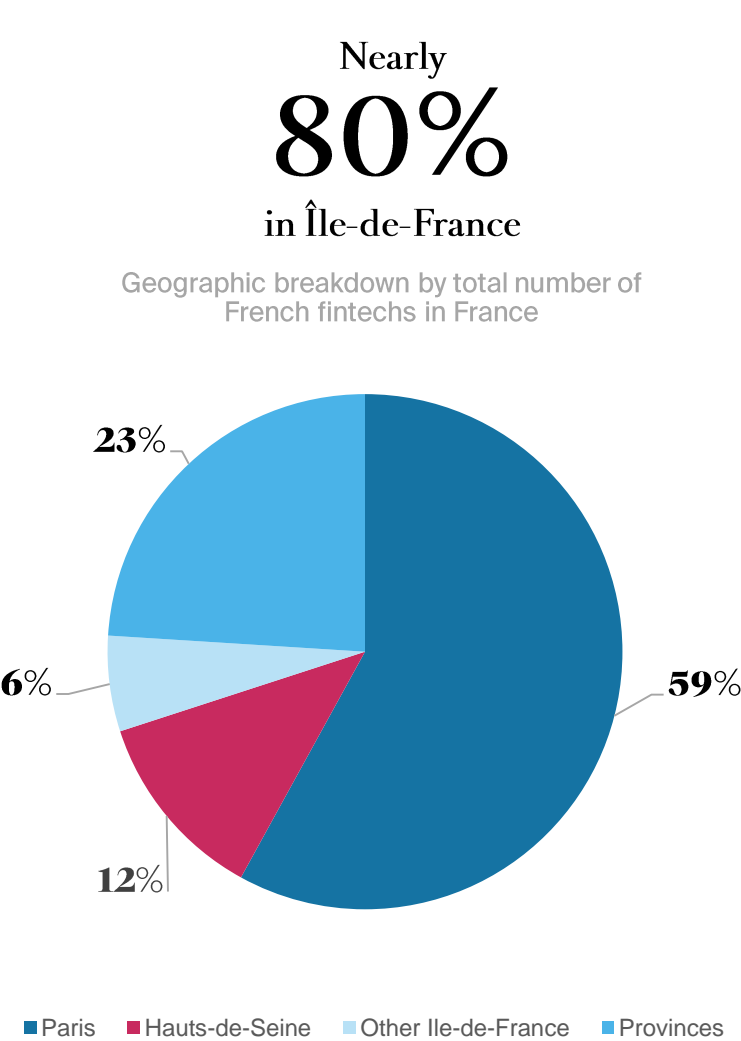
Notwithstanding the coworking supply, the vast majority of fintech companies have their own offices. **Located mainly in the Paris hypercentre**, these spaces are generally less than 500 m². However, they grow with each new round of financing and with the success of certain French startups, such as the 4,500 m² let by Younited in 2018 at 21 rue de Châteaudun. Analysis of demand suggests there will be other significant lettings in the months ahead. However, pressure from rising rents and the scarcity of available office space in Paris, where the vacancy rate is still less than 3% in inner Paris, could slow fintech transactions. Difficulties in finding space could heighten the use of coworking. Could these challenging conditions favour other tertiary sectors with a better supply of large, high-quality office spaces which are less expensive and easier to access through public transportation? There is no doubt that, more than ever, property questions are strategic. Companies depend on their work space to continue growing, in a context of increasing competition for top talent.

Examples of growth of Fintech lettings
Office spaces let, in m²

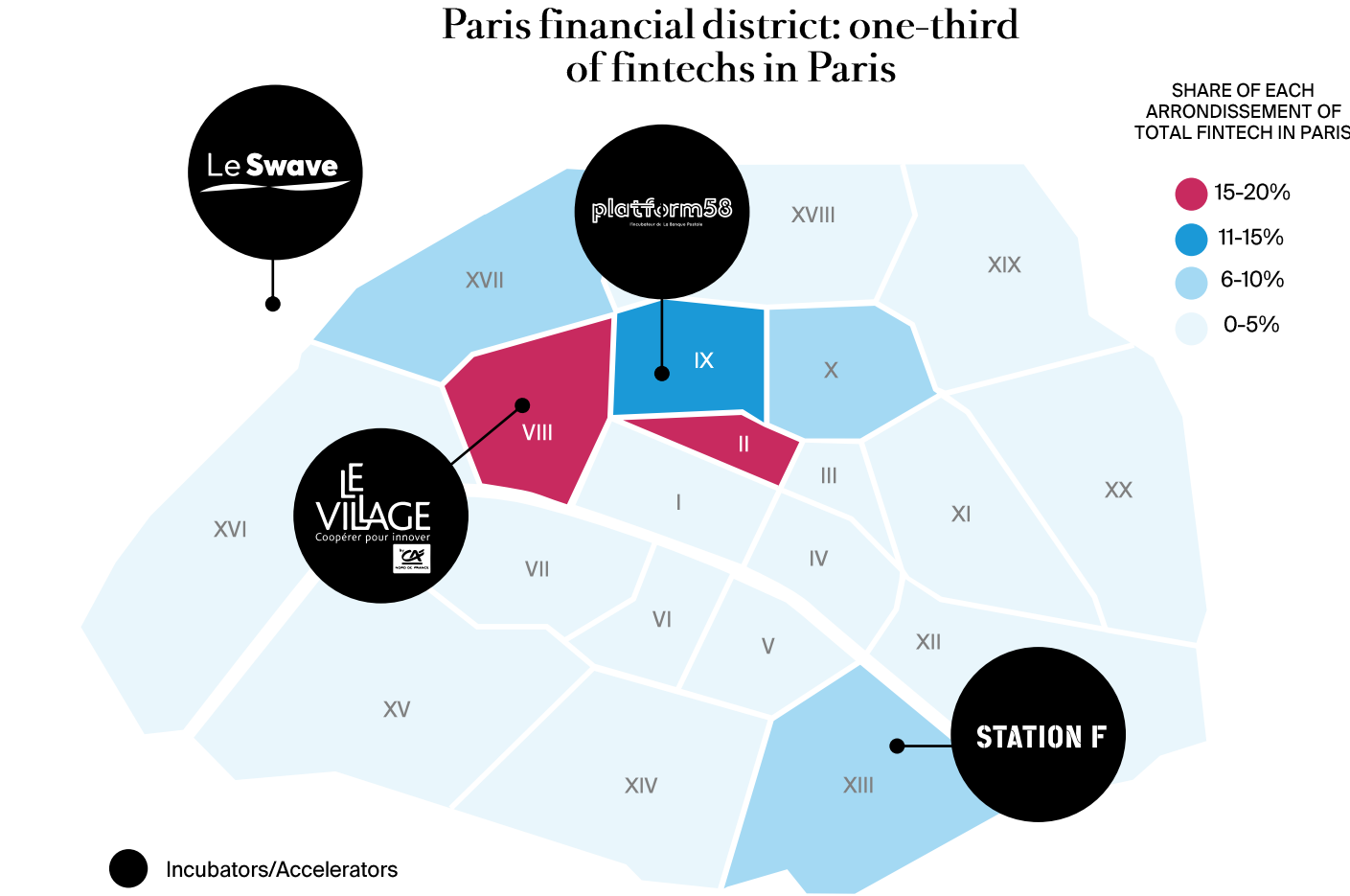


Source: Knight Frank

The rapid growth of fintech companies



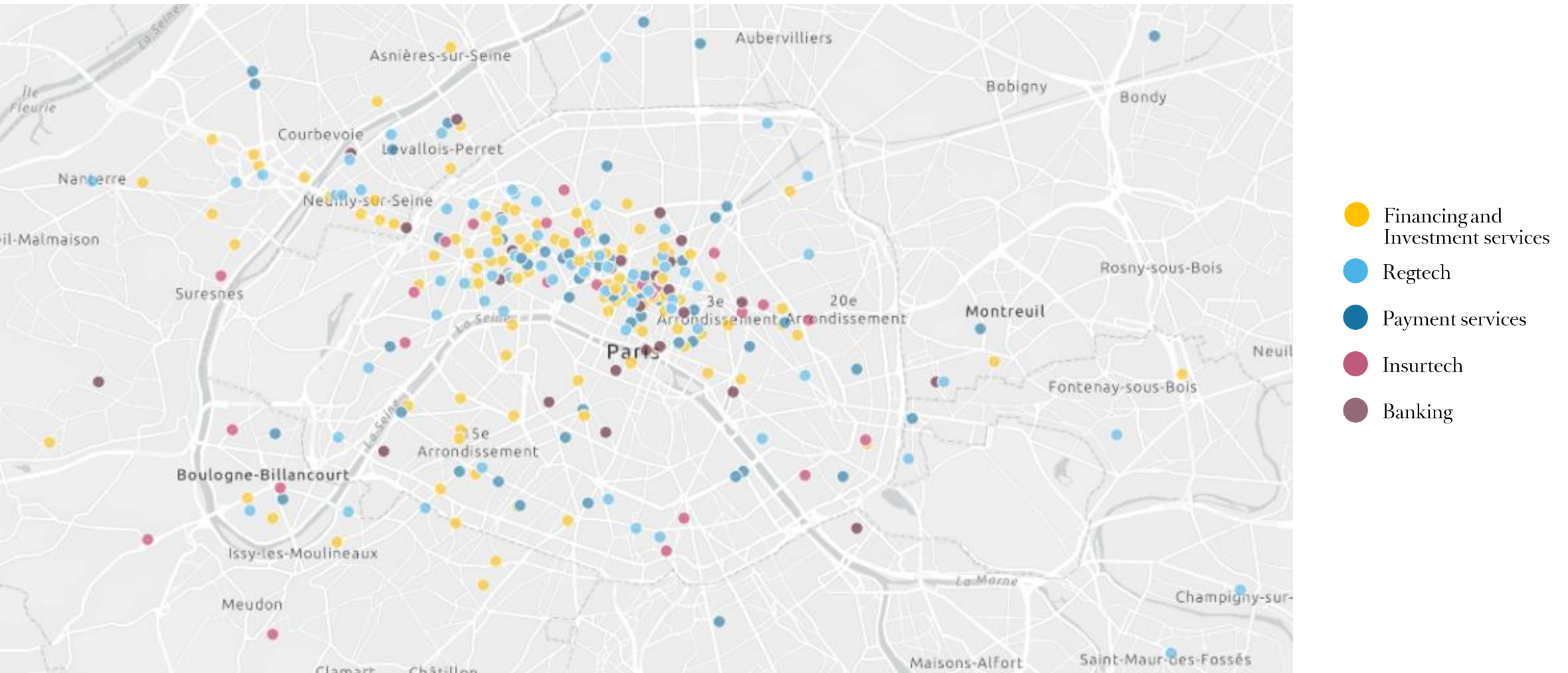
Source: Knight Frank, from France Fintech, "Overview of French Fintech", 2019



- The growth and new hires of fintech companies benefits mainly Île-de-France, home to nearly 80% of fintech. Other French cities are also active, thanks to dedicated government assistance programmes (B612 in Lyon and Grenoble, "French Assurtech" in Niort, EuraTechnologies in Lille, etc.).
- Île-de-France fintech companies are principally located in Paris, and in hypercentre districts in particular. The most desirable are the 2nd arrondissement, the historic heart of the startup ecosystem (Sentier), and the 8th and 9th arrondissements, major tertiary sectors chosen by some of the most dynamic fintechs (Younited Credit, Leetchi, October, etc.).

The rapid growth of fintech

Map of fintech companies in the Paris region by geographic sector and activity



Source: Knight Frank, from France Fintech, "Overview of French Fintech", 2019

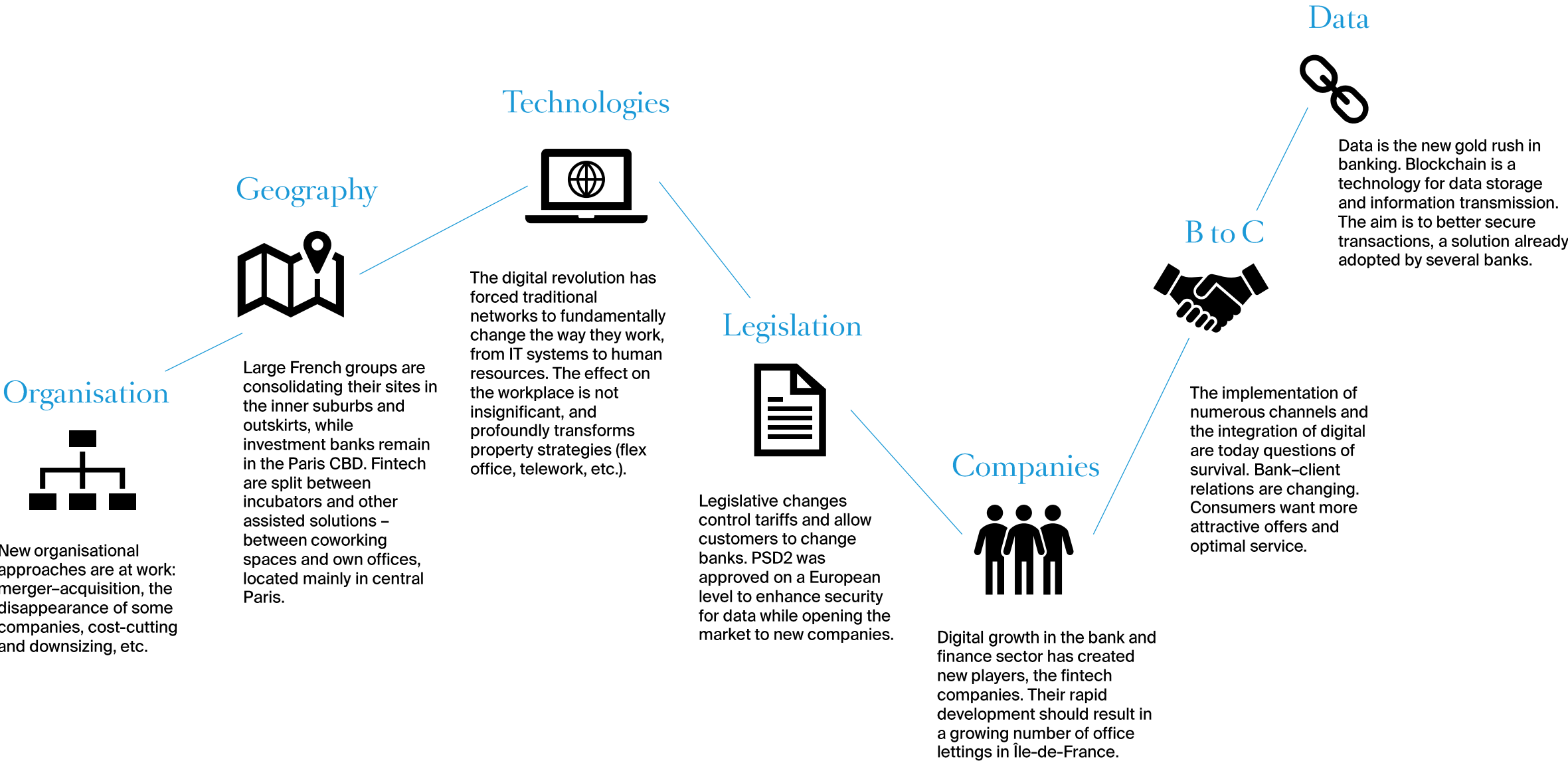


7

The finance
sector

Summary and contacts

Summary



Contacts

About Knight Frank

Founded more than 120 years ago in Great Britain, the Knight Frank group today provides its expertise as an international real estate advisor, with more than 19,000 employees operating from 512 offices in 60 countries. Its French branch was established more than 45 years ago and operates in the commercial real estate market, mainly in the office sector, but also in the retail, industrial and logistics sectors. It targets two distinct clients: owner-investors and corporate users.

Knight Frank has 70 employees working from their Paris office, which is structured around 4 service lines: office lettings and user advisory (Occupier Services & Commercial Agency), including workspace design (Design & Delivery), Capital Markets, Retail Leasing and valuation with their Knight Frank Valuation & Advisory subsidiary.

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