Knight Frank

UNDER PRESSURE #3

BREXIT

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

Contact

David Bourla

Chief Economist
& Head of Research France

+33 (0)1 43 16 55 75

david.bourla@fr.knightfrank.com

Authors

David Bourla

Chief Economist
& Head of Research France

Annabelle Vavasseur

Research analyst France

LONDON MARKET FOCUS

Faisal Durrani

Head of London Commercial Research

DUBLIN MARKET FOCUS

John Ring

Head of Research Ireland

Connecting people & property, perfectly.

Scan this QR code and check out our "Brexit: Under Pressure" playlist

UNDER PRESSURE #3

Just over a year ago, Michel Barnier, the European Union's chief negotiator, said that *"preparations for a no deal [were] more important than ever"*. Theresa May, then Prime Minister of the United Kingdom, faced the discontent of the Tories and the opposition. Having failed to get her country out of the EU by the 29th March 2019 deadline, she was forced to resign in May. Since then, things have moved quickly. Installed at 10 Downing Street since July 2019, Boris Johnson was the big winner of the December parliamentary elections, congratulating himself on having obtained "a powerful new mandate to get Brexit done".

What is the current situation? **The UK's exit from the EU, which became official on 1st February 2020**, has by no means removed all uncertainty. Talks on a free trade agreement between London and Brussels have just begun and the transition period, initially planned to last eleven months, could well be extended[1]. Many issues will be negotiated, with the main challenge being the alignment of British and European regulations. The subject is particularly sensitive for financial companies. Many of them have already anticipated the risks associated with Brexit by obtaining one or more approvals from local regulatory authorities, or by opening offices in European Union countries. **A total of 530 actual or potential relocation projects have been identified since the referendum in 2016.** This number could have been even higher if political uncertainty had not encouraged a wait-and-see attitude among companies in 2019.

The formalisation of Brexit, and the expected completion of the transition period, should result in the announcement of new movements and, above all, in the implementation of projects already initiated by companies to ensure their access to the common market. Two of the trends seen last year should also be reaffirmed: **the rising number of movements carried out by Fintechs**, companies that combine finance and digital technology and to which we are devoting part of this study, and the high number of projects identified outside the finance sector (lawyers, audio-visual and pharmaceutical companies, etc), illustrating the impact of Brexit on several sectors of the economy.

At first glance, the ranking of the cities attracting the most Brexit-related movements has changed little in one year. Dublin remains firmly in first place, ahead of a quartet comprising Paris, Luxembourg, Amsterdam and Frankfurt. However, two cities stand out for their growing popularity: Amsterdam, which has built its success on its ability to attract companies with a variety of profiles and is leaving Frankfurt behind more markedly, and above all **Paris, which has caught up with Luxembourg and is therefore in second place behind Dublin**. Although this breakthrough has resulted in new office space being let or purchased to house Brexit's "exiles", the increase in activity remains modest in terms of the Greater Paris Region commercial real estate market as a whole. What will happen in the coming months? What are the trends in other European cities?

These are some of the topics addressed in this third edition of our "Under Pressure" report series, the content of which was produced in collaboration with Knight Frank's international research teams and includes, for the first time, an analysis of Brexit's impact on the luxury residential market. Regarding the design, it once again pays tribute to almost half a century of British music and popular culture.

Enjoy reading and listening!

[1] Study completed on 1st March 2020.

THE LONG & WINDING ROAD

TIMELINE OF A PLANNED BREAK-UP

2016

23rd June

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

13th July

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

27th July

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

2017

29th March

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

29th April

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

8th December

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, Irish border). Phase II of the negotiations begin.

2018

19th March

The UK and the EU agree on the terms of a non-renewable post-Brexit transition period which, in the event of a deal, will last until 31st December 2020.

12th July

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.

20th September

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

Under Pressure #1

13-15th November

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 the two Irelands, by keeping the UK in the European Customs Union.

25th November

Theresa May and the Heads of State and Government of the Union endorse an exit deal.

2019

12th March

After an initial rejection in January, the British Parliament once more rejects the deal negotiated by Theresa May. For Michel Barnier, preparations for a no deal are *"now more important than ever"*.

Under Pressure #2

29th March

The British Parliament rejects for the third time the deal negotiated by Theresa May. This day also marks the end of the two-year period provided for in Article 50 of the EU Treaty in which the procedure for exiting a member state must be completed.

11th April

The Brexit date is postponed to 31st October 2019.

24th May

Theresa announces her resignation the day after the European elections in the United Kingdom.

24th July

Boris Johnson is appointed Prime Minister and promises to take the United Kingdom out of the European Union by 31st October 2019, with or without a deal.

17-19th October

London and the EU announce a new agreement on Brexit. However, the House of Commons votes on an amendment forcing the British Prime Minister to ask for a further postponement of the divorce.

28th October

Approval by the EU of a further postponement of Brexit until 31st January 2020. The following day, the British Parliament gives the green light for early elections.

12th December

Overwhelming Conservative victory in the general election. Boris Johnson is pleased to obtain "a powerful new mandate to get Brexit done".

2020

29th January

After a favourable vote by the British MPs and its promulgation by Queen Elizabeth II, the Brexit deal is ratified by the European Parliament.

1st February

The United Kingdom is no longer a member of the EU. As a non-EU member, it will no longer be involved in EU decision-making processes, but will still have access, during a transition period of eleven months, to the internal market and the customs union.

2nd March

Start of talks on a free trade agreement between the UK and the EU.

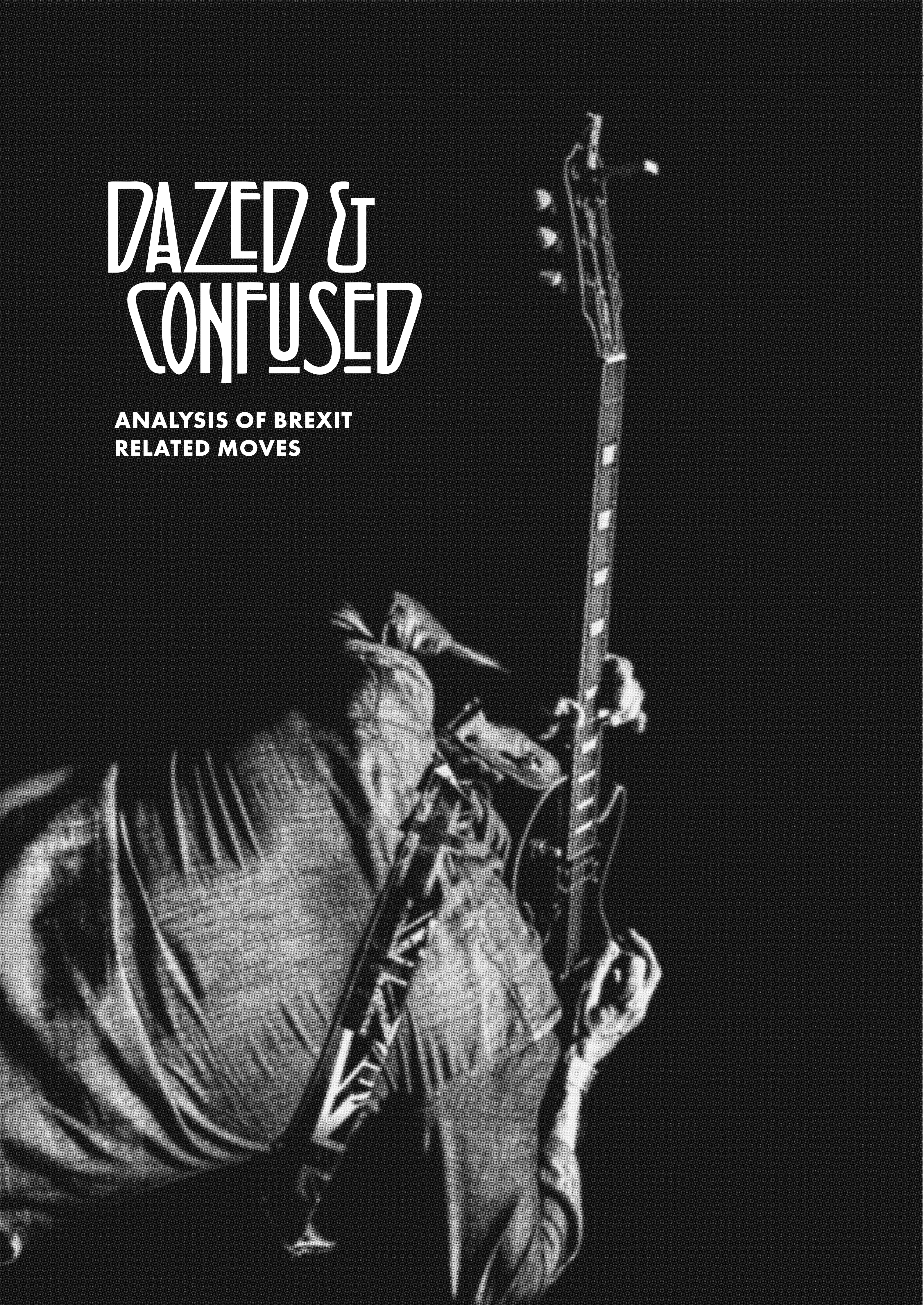
Under Pressure #3

30th June

The United Kingdom has until that date to inform the EU of its willingness to extend the transition period from one to two years.

31st December

End of the transition period, if it is not extended.



DAZED & CONFUSED

ANALYSIS OF BREXIT RELATED MOVES

PERSISTENT UNCERTAINTY

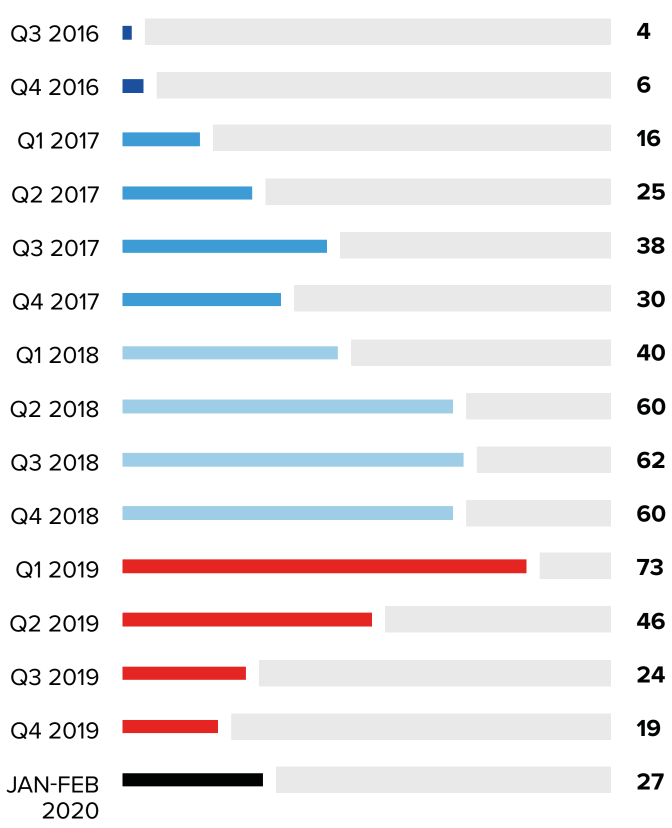
In the previous two editions of our Brexit report series, we indicated that it was difficult to accurately know the number of movements and job gains associated with the UK's exit from the European Union. Indeed, many companies had not yet obtained a license from the local regulatory authorities, validated their choice of destination or decided on the exact number of employees to be relocated. Although Brexit is now official, **this difficulty in measuring the consequences will persist until the framework for future relations between London and Brussels is fully clarified**. The uncertainty could even continue beyond 31st December 2020, the date on which the transition period is theoretically due to end. Negotiations between London and Brussels to bring to an end almost half a century of coexistence look set to be complicated by the infinite number of issues to be dealt with, in sectors as varied as security, energy, fisheries, transport and, of course, finance.

Despite the uncertainty, the monitoring system set up by Knight Frank since the 2016 referendum still makes it possible to estimate the impact of Brexit on business mobility. Some 530 movements, certain or potential, have already been identified in Europe. Following ten in 2016, 109 were recorded in 2017 and 222 in 2018. This acceleration continued in the first quarter of 2019 with 73 movements recorded - the highest level ever seen in a quarter since the referendum - before slowing down sharply in the following three quarters. **Over 2019 as a whole, 162 projects were identified, down 27% on the previous year**. This slowdown confirms the irregularity of Brexit-related movements over time: almost 56% of the 530 movements recorded were between the beginning of 2018 and the end of the first quarter of 2019, compared with 22% between the June 2016 referendum and the end of 2017, and 22% since the second quarter of 2019. After an initial period of hesitation, most companies have taken initial actions to protect themselves from the risks associated with Brexit - the priority being to remove regulatory uncertainty by obtaining licenses to operate within the European Union. As for the slowdown in the number of movements recorded between the spring of 2019 and the beginning of 2020, this is no doubt due to the wait-and-see attitude of some companies, given the delays in Brexit, negotiated last year between London and Brussels in order to avoid a no deal scenario.

This wait-and-see attitude may not continue into 2020. After many months of political uncertainty, Brexit has indeed become inevitable. **The motivation of companies will be all the stronger as a hard Brexit cannot be ruled out until the negotiations are concluded**. In the world of finance, it is the mutual recognition of British and European regulations that is at the heart of the discussions between London and Brussels. The City thus wishes to perpetuate a system of equivalence in order to compensate, at least partially, for the loss of the famous financial passport, and to offer visibility to companies based there. However, these hopes were quickly dashed: in a speech delivered in Strasbourg on 11th February 2020, Michel Barnier, the EU's chief negotiator, pointed out that the United Kingdom would not benefit from any preferential treatment in this area, as the Union wanted to keep control over the granting of equivalence systems and retain the possibility of withdrawing them unilaterally and without delay.

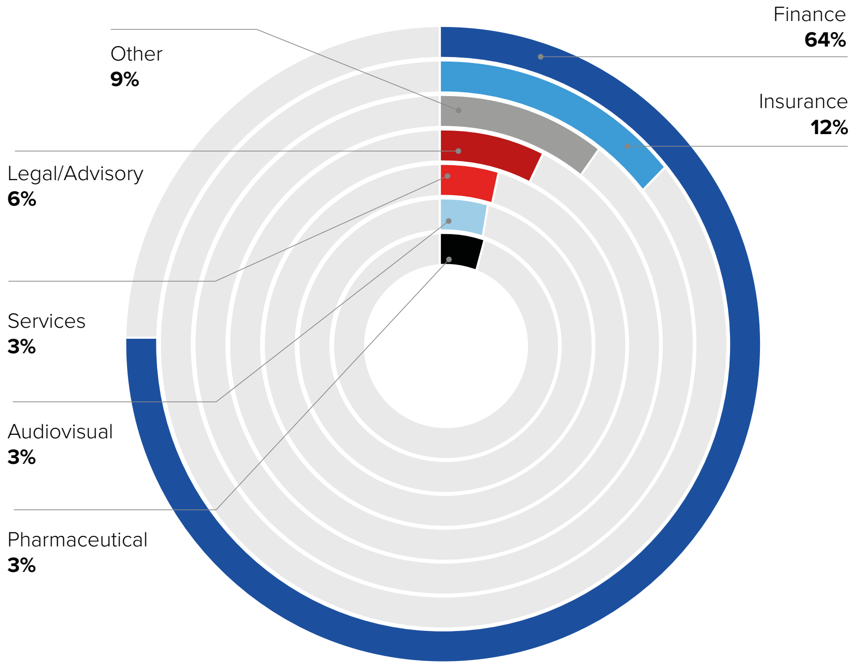
> "I would like to make it clear to certain UK officials that there should be no illusion on this issue: there will be no general, blanket or permanent equivalence on financial services."
>
> **MICHEL BARNIER, EXCERPT FROM A SPEECH TO MEPS IN STRASBOURG ON 11TH FEBRUARY 2020.**

QUARTERLY CHANGE IN THE NUMBER OF BREXIT-RELATED MOVES
SOURCE: KNIGHT FRANK, DEFINITE AND POTENTIAL PROJECTS OR ACTUAL RELOCATIONS. AS AT 1ST MARCH 2020.



BREAKDOWN OF BREXIT-RELATED MOVES BY ACTIVITY (OF THE TOTAL NUMBER, IN %)

SOURCE: KNIGHT FRANK, DEFINITE AND POTENTIAL PROJECTS OR ACTUAL RELOCATIONS. AS AT 1ST MARCH 2020.



FINANCE STILL AT THE FOREFRONT

Finance, which is at the heart of the subject of regulatory alignment between the UK and the EU, is the sector with the largest number of Brexit-related movements. **Its share, which was 72% a year ago, is now 64%** (337 actual or potential projects out of the 5230 identified since 2016). The balance relates to a multitude of other activities, for which regulated access to the common market is often strategic. This is of course the case for insurance (12% of all Brexit-related movements), and the legal professions (6%), as illustrated by the sharp rise in the number of British lawyers registered with the Dublin Bar (nearly 4,000 since the 2016 referendum, according to the Law Society of Ireland) and several high-profile arrivals (Dentons, Pinsent Masons, etc.). However, the choice of location for law firms, whether British, American or Asian, is not limited to the Irish capital: Frankfurt (Fieldfisher, Nishimura & Asahi), Brussels (Bristows, Reed Smith), Luxembourg (Ashurst, Goodwin) and Paris (Kirkland & Ellis, Sideman & Bancroft) have also been chosen as a result of Brexit-related movements.

Other activities concerned vary greatly. Among them is the pharmaceutical industry, whose movements have mainly targeted the Netherlands due to the move of the European Medicines Agency (EMA) to Amsterdam. In the same country, several NGOs have relocated their teams to The Hague, an important place for international law (Euclid network, Field Ready, Mercy Corps, Redress, etc.). Finally, the last few months have confirmed the restructuring of the audio-visual sector due to the need for international channels to continue to broadcast their content within the EU. This is evidenced by the fact that while the UK hosted half of all channels broadcasting in EU countries in 2018, this share fell to just over a third in 2019, particularly to the benefit of the Netherlands, Spain and the Czech Republic[1].

The reduction in finance's share of all movements needs to be put into perspective: this sector still accounts for a very large majority of Brexit-related recruitment, whether for positions already filled or to be filled. It is in the finance sector, and the banking sector in particular, that the most job-creating movements have also been identified. Paris provides a good example of this, with the 200 or so employees of the European Banking Agency (EBA) who have been based in La Défense since June 2019, and the 400 people who will be accommodated h in the new Bank of America headquarters on rue La Boétie. At almost 90%, the high share of the financial sector in the overall Brexit-related job gains expected in Paris is therefore not surprising. The trend is the same in other major European cities, with the notable exception of Amsterdam, where EMA expatriates (nearly 800 ultimately) make up the bulk of the Brexit exile ranks.

HOW SIGNIFICANT ARE BREXIT-RELATED JOB GAINS?

That said, the actions taken by companies to protect themselves from the effects of Brexit have above all, and quite logically, focused on obtaining approvals and on initial targeted recruitment to prepare new locations, rather than on recruiting large contingents of employees. The

[1] Source: European Audiovisual Observatory, January 2020.

postponement of the formalisation of Brexit and the transitional arrangements put in place by some countries have also maintained the status quo. In Luxembourg, a law passed in April 2019 provides that British companies could, under certain conditions, be authorised to continue their activities in the Grand Duchy for a period of 21 months in the event of a no deal Brexit. The EU was fairly conciliatory, but nevertheless reiterated that obtaining licences must be accompanied by **the establishment of genuinely capitalised subsidiaries employing a significant number of employees**.

> "In some cases authorisations have been granted, but that it is not clear that the associated transfer of assets, skilled staff and risk functions associated with the newly authorised business have been implemented to their fullest extent. It is imperative that they have the capability to manage the risks they generate from the first day after the withdrawal of the UK"
>
> **Communication of the European Banking Authority on the UK withdrawal from the EU, 8th October 2019.**

Over the coming months, **the formalisation of Brexit and the expected conclusion of the negotiations between London and Brussels will therefore result in new movements and, above all, in the completion of projects already initiated by companies** with the aim of securing their access to the common market. This will most probably result in an increase in the number of jobs created by Brexit, as well as in new leases of office space to house these new employees.

Another trend that could also gain momentum, but this time with less effect in terms of job creation, is that of **an increase in the number of acquisition transactions enabling non-European companies** to facilitate their access to the common market. Several examples have already been identified, such as the acquisition by Australia's EML of Ireland's Prepaid Financial Services in the Fintech sector, or the takeover of Germany's MainFirst Bank by the American Stifel in the investment banking sector. Finally, in the legal field, a Smith & Williamson study published in November 2019[2] indicated that 80% of the top 20 Irish law firms had been approached by one of their UK competitors in the context of a possible merger or acquisition.

[2] Source: Smith & Williamson, *Smith & Williamson Annual Survey of Irish law Firms 2019/2020.*

SUPERSONIC

FOCUS ON FINTECHS

A few weeks after Brexit was officially implemented, there are still a lot of questions for the finance sector in the UK. London will certainly not lose its status as one of the world's leading financial centres, despite the relocation movements of the largest British banking institutions such as HSBC and Barclays. In another newer and less developed field such as Fintech, what will the consequences of Brexit be? The subject is all the more important as these innovative companies, relying on new technologies to rethink financial and banking services, **are booming in London and heavily dependent on a pool of British but also foreign talent** – according to TheCityUK, the latter account for 28% of finance jobs in London, including 17% for EU nationals. So will UK Fintechs continue to be attractive to the best international professionals? And how will they access the vast EU market after the London-Brussels negotiations?

LONDON, THE UNDISPUTED EUROPEAN CAPITAL OF FINTECHS

Although Brexit may have slowed economic activity and fostered a climate of uncertainty that investors generally abhor, the UK nevertheless remains well ahead of other European countries. For example, the Fintech sector employs almost 60,000 people in the UK, about twice as many as in France and Germany. Moreover, the country already has 7 Fintech unicorns, compared with five in the rest of Europe, which include N26 (Germany), Klarna (Sweden), Adyen (Netherlands) and Ivalua (France). Among the British Fintechs, some in particular stand out, such as Revolut which, with 500 million dollars, has just completed the biggest fund-raising in the history of European Fintechs, and Monzo which, by renting just over 10,000 sq m of office space in the City, signed one of the largest leases in London at the end of 2019. **The scale of fundraising also reflects the lead taken by the United Kingdom**. Innovate Finance thus estimates their total at 4.9 billion dollars in 2019, i.e. 58% of the investments made in Europe and an amount 85% higher than that raised in France over the same period!

WHAT IMPACT HAS BREXIT HAD ON BRITISH FINTECHS?

London remains a major financial centre, the Tech ecosystem is large and mature, and it will be particularly difficult to dethrone it in terms of fund-raising and other areas. Moreover, the growth of the sector is amplified by the presence of the world's major digital leaders, including the famous GAFA. Facebook recently announced the creation of a thousand new jobs in London, in part to fight against undesirable content. This example of massive recruitment puts the finger on one of Brexit's main challenges for British Fintech: its ability to continue to attract and retain the best foreign talent. In order to develop, these companies need a workforce that is large enough to keep pace with the exponential growth of their business, and qualified enough to ensure their technological edge. Growing uncertainty about the mobility of international workers and visa arrangements could thus become a major obstacle, especially as the UK economy and London's economy in particular are already facing a severe shortage of talent.

> "Financial services faces challenges similar to other sectors to secure the specialist technology and digital talent that it requires with digital skills now a utility across the entire economy. This war for talent will continue and intensify"
>
> **FINANCIAL SERVICES SKILLS TASKFORCE, FINAL REPORT, THECITYUK, JANUARY 2020.**

Regulation is another key issue. Many fintech companies are therefore multiplying the number of licence applications for continued access to the EU market. Depending on Fintech's characteristics and goals, two statuses regulated by the PSD2 directive are possible. One concerns the licence for electronic money institutions (payment or foreign exchange transactions, issuing or acquiring payment instruments, etc), the other for payment institutions (credit card processing service, service to foreign exchange and payment companies, etc). This is a fundamental difference that explains the wide range of applications submitted to the regulators. Some Fintechs have also increased the number of licence applications to target different geographical areas. Revolut is a perfect, and particularly interesting, example: whilst remaining in London, the company will also be based in Vilnius, which will serve as a gateway to Central and Eastern Europe, as well as in Dublin as part of its expansion into Western Europe. As such, Brexit is not so much challenging the pre-eminence of British Fintechs, **but should instead allow a shift in the balance in favour of several other European cities**.

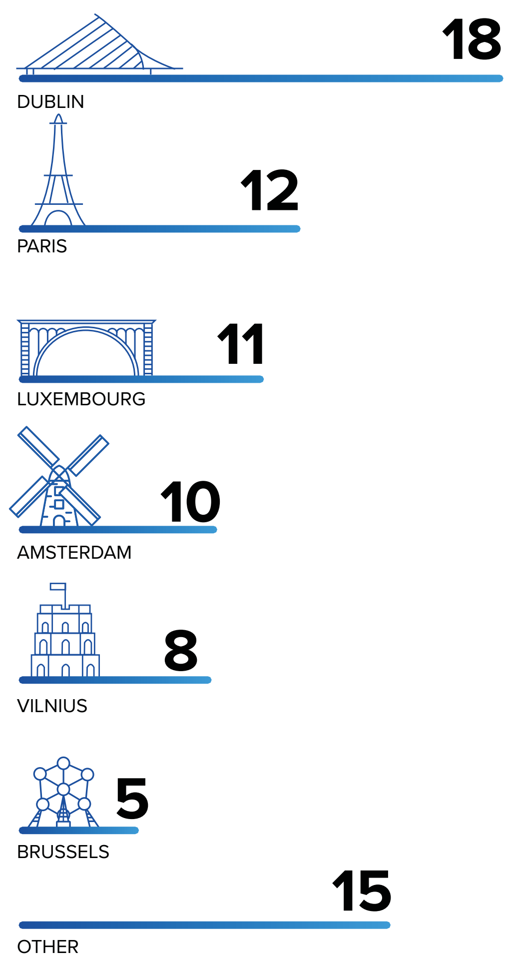
A HIERARCHY IS EMERGING

This relative shift of power is illustrated by the 79 Brexit-related Fintech movements recorded by Knight Frank between the 2016 referendum and the beginning of 2020. Fintechs therefore account for only 15% of all Brexit-related movements, far behind traditional finance. Similarly, Fintech projects generally concern only a limited number of jobs. For example, they are expected to bring only 250 new jobs to Paris, compared to the 3,500 currently expected in the French capital due to Brexit. However, the low proportion of Fintech jobs should be put into perspective: while the workforce of banks has been shrinking steadily over the years (-18% in Europe between 2008 and 2018 according to the ECB), the number of Fintech jobs is growing steadily. This is the case of N26, which doubled its global workforce between 2018 and 2019 to reach 1,500 employees. Finally, and contrary to the trend observed in other sectors, **the number of Fintech Brexit-related movements has grown steadily over the years**, from 18 projects in 2016 and 2017, to 24 in 2018 and 37 since the beginning of 2019.

Although the number of Fintech movements increased slightly compared to the previous edition of our Brexit study, the hierarchy of the main destinations remained almost unchanged: Dublin retains its leading position with 23% of the actual or potential projects identified in Europe, the majority of which are Fintech projects originating in the United States. The next most popular locations are Paris (15%), Luxembourg (14%), Amsterdam (13%) and Vilnius (10%). The remainder is spread among several cities including Brussels, Madrid, Berlin and Helsinki.

Each of these cities has a number of advantages to attract Fintechs. For example, Dublin is the economic capital of a country, Ireland, which is naturally favoured because of its geographical, cultural and regulatory proximity to the British market. As the main beneficiary of Brexit-related movements, the financial ecosystem has also been significantly strengthened since 2016. Finally, the city is also a stronghold

PREFERRED DESTINATIONS FOR FINTECHS WITHIN THE CONTEXT OF BREXIT SOURCE: KNIGHT FRANK, DEFINITE AND POTENTIAL PROJECTS OR ACTUAL RELOCATIONS. AS AT 1ST MARCH 2020.

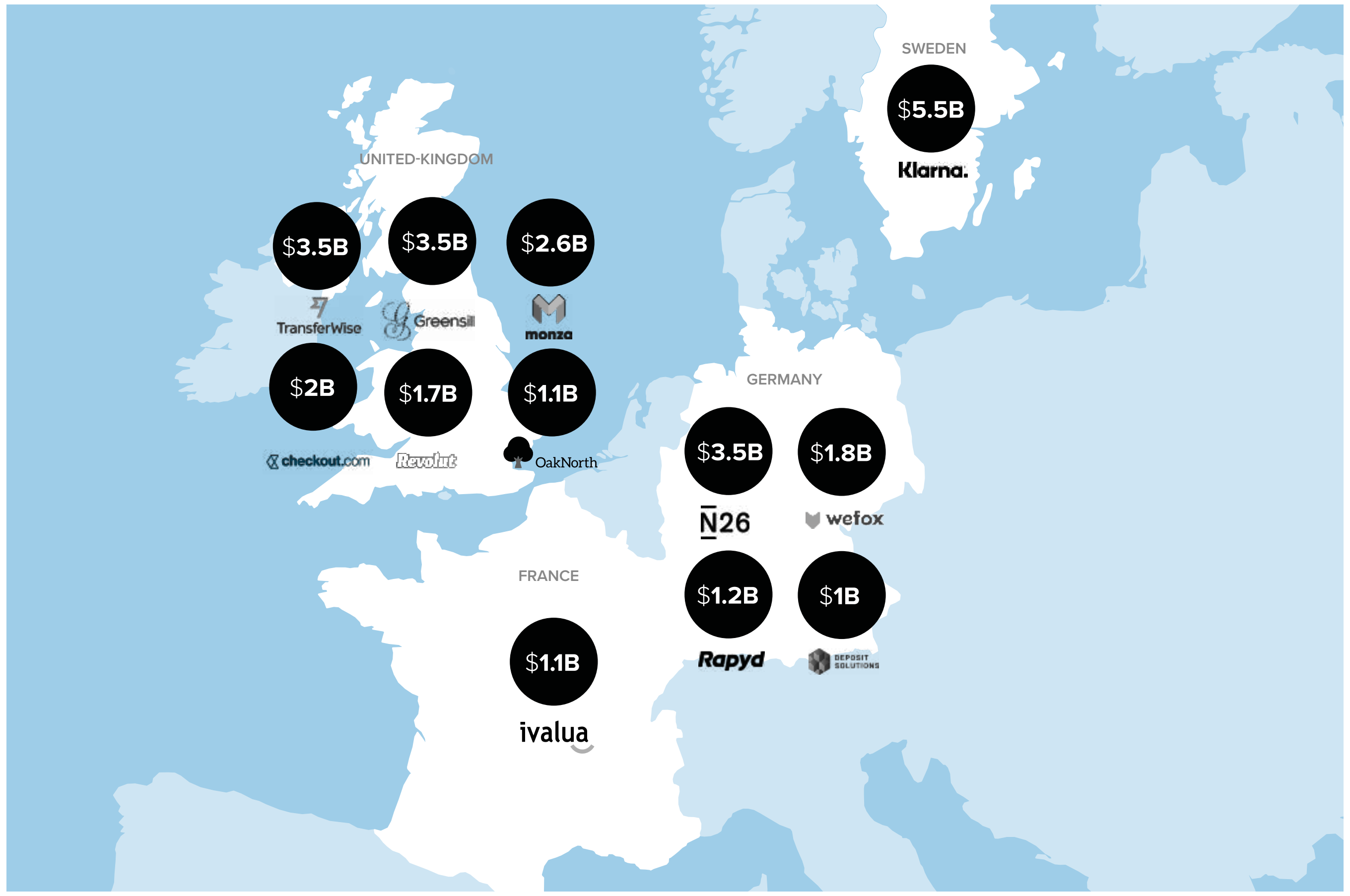


of the tech giants, since the European headquarters of Google and Facebook are located here, as well as more than 2,000 Microsoft employees. Amsterdam, which recently attracted Tradeweb Markets, and Luxembourg, chosen by Alipay to set up its European hub, are also home to many Tech companies and also benefit from an advantageous fiscal and regulatory framework. Finally, Vilnius stands out from these other cities because the Fintechs there represent the bulk of Brexit-related movements, and significant ones at that (Google Pay, TransferGo, Revolut, etc.). The local authorities and economic players have made Fintechs a priority, between tax aid, support and the fluidity of the regulatory framework and it takes only three months, for example, to obtain a licence. Lithuania also benefits from a well-trained workforce that is fluent in English and whose cost is much lower than the European average.

What role do Paris and France play within this context?
Entrepreneurs have been benefiting from a more favourable business climate in recent years, particularly in terms of taxation. The PACTE law has also contributed to this improvement with, for example, the introduction of a legislative framework for fundraising in ICO (Initial Coin Offering) cryptocurrency. These regulatory changes have contributed to Fintech's growth in France: in 2019, fundraising reached nearly €700 million, with an average transaction doubling from one year to the next and five transactions in excess of €50 million, including Wynd, Payfit and Younited Credit. Three new transactions were completed in January, including Qonto's record raising of 104 million euros. The trend therefore remains very positive, so much so that Kat Borlongan, Director of the French Tech Mission, recently announced that France could have 25 unicorns by 2025! **This is an ambitious but not unrealistic figure given the strong growth of some national champions**. Indeed, seven Fintechs belong to the Next40[1] (Younited Credit, October, Ledger, etc) and six others have joined the FT120[2] (Lemon Way, LGO Group, Lydia, etc).

[1] Index launched by the French government in 2019 and comprising a selection of 40 French start-ups with high potential.
[2] 80 start-ups have been added to the Next40, constituting the FT120 programme. These companies benefit from tailor-made support to accelerate their growth in France and abroad.

FINTECH UNICORNS IN EUROPE, VALUATION IN $ BN
SOURCE: CB INSIGHTS 2020



INTERVIEW


SMART LENDERS ASSET MANAGEMENT

Erich Bonnet, CEO
et Fabien Jullia, Partner, Managing Director

Please introduce Smart Lenders Asset Management. What are your areas of expertise and what is your presence in the European markets?

Smart Lenders AM is an asset management company specialising **in the management of loan portfolios acquired through online platforms**. The company was launched in 2014 in London with a team of 4 people. Smart Lenders AM has raised more than $350M from private and institutional investors and has experienced an average annual growth of 65% in turnover over the last three years. We began our investments through US platforms with an algorithmic approach to risk assessment and loan selection. We adopted this approach in order to be able to analyse a large number of small loans, granted to consumers and then to small businesses in the United States. Since 2019, we also invest in loans to very small businesses and small and medium-sized businesses through European platforms in France, Germany and Switzerland.

The origin of Smart Lenders AM stems from the desire to provide European investors with a turnkey solution to access the growing online lending market. Our investors are European and we currently manage a fund under Luxembourg law and will also soon manage a fund under French law.

Following the June 2016 referendum on Brexit, you quickly considered moving your London operations to France. What were the main criteria that led you to choose a location in France, and more specifically in Paris?

We set up in Paris in October 2017 after obtaining AMF approval for our management company. We moved our activities, including the management of our investment vehicles, on 1st January 2018. As our activity is regulated, we are required to have a European passport for the management and marketing of our Luxembourg fund. We therefore took the decision in June 2017 to leave the United Kingdom to set up the company in a European Union country. **The choice of Paris was a natural one as the 4 partners of Smart Lenders AM are French**, and we all have a long professional experience in Paris, hence our networks of clients and contacts in the financial industry, as well as a good knowledge of the regulatory framework and the AMF.

We are based on Boulevard Haussmann, close to Saint Augustin and Parc Monceau, where many leading banks and prestigious management companies are located. We thought it would be easier for their clients to come and see us!

What is your view on the welcome conditions offered by France to entrepreneurs, in the Fintech sector in particular?

We waited until June 2017 to take the decision to move our activities to France because we first wanted to be sure of the French political context. The new government seemed to us to be favourable to business and entrepreneurs in general, particularly from a tax point of view, for example with the introduction of the "flat tax" on capital income. These changes have brought France back to a good average at a European level, thereby making it competitive once again for entrepreneurs wishing to set up in the country. Furthermore, public and regulatory bodies, such as the AMF, the Greater Paris Region authorities and the Choose Paris Region agency, provided us with strong support and facilitated our move to Paris. In addition to these factors, **the interest shown today in technology companies (including Fintech), and the development of innovation in France by the public authorities and the general public, is a real support factor**.

Did you also consider other cities in other countries? If yes, which ones and why?

We did indeed consider other cities, but our choice was quickly decided on Paris for quite natural and personal reasons, as the company's employees and partners were mainly French. Moreover, Paris remains an important financial capital in Europe and is probably **the main city, after London, to benefit from a worldwide influence in the cultural, political, commercial, tourist and nowadays technological fields**. We therefore generally have little difficulty in bringing our clients to Paris!

In the short and medium term, what are your growth objectives in France and abroad?

Since our move to Paris, we have recruited 6 new employees and we are quite proud to mention that one of them is British and has chosen to leave London to join us in Paris. He previously worked for Europe's largest small and medium-sized business lending platform.

In the short to medium term, we plan to strengthen our research and analysis activities in order to further develop our models and technological tools. **These tools allow us to increase our investment capabilities and economies of scale, without having to increase headcount as much as we had originally anticipated**. Our efforts are therefore focused on these activities, in the French market only for the time being.

Talent is a scarce commodity in the employment market. Do you feel this tension when searching for candidates? Do you think that real estate has a role to play in attracting or retaining employees?

The search for talent is indeed a real challenge, but one that seems less of a challenge in Paris than in other smaller cities. We are fortunate to be able to propose an innovative and sound project in a sector that is now attracting a lot of talent. We allocate a significant part of our resources to fundamental research, which enables us to attract scientific professionals specialising in machine learning or artificial intelligence. In fact, one of our researchers is currently preparing a PhD in this field. The location of our offices as well as the quality of our premises obviously have a role to play, although we are in a somewhat challenging situation **where we have to combine financial backgrounds, which are more likely to be found in western Paris and the CBD, with technical and scientific backgrounds, which are nowadays more concentrated in the east and the "upcoming" districts**. But so far, we have managed to take advantage of this culture clash!

You recently obtained the French status of Young Innovative Company for your research on the integration of artificial intelligence in your investment activities. Is France a step ahead on this subject? Do you have other ongoing development projects?

We were granted Young Innovative Company status in the spring of 2019, specifically for the work carried out by our researchers. **France has a long tradition of supporting and showcasing its scientific research through incentive and funding models that support research undertaken by private companies**. This enables young companies like ours to support a research initiative that might otherwise be too costly for us.

Our research aims to use artificial intelligence tools to improve and even automate the credit analysis of small companies and thus enable a faster and less risky investment decision than with more traditional analysis. The ultimate objective is to reduce the cost of investment in order to pass on these savings to the various stakeholders, and thus enable a more widespread financing of small companies. Our projects generally focus on this goal, making quantitative analysis tools more reliable to reduce processing costs and providing more credit solutions to a larger number of companies requiring them.

WORLD IN MOTION

WHERE DO BREXIT'S "EXILES" GO?

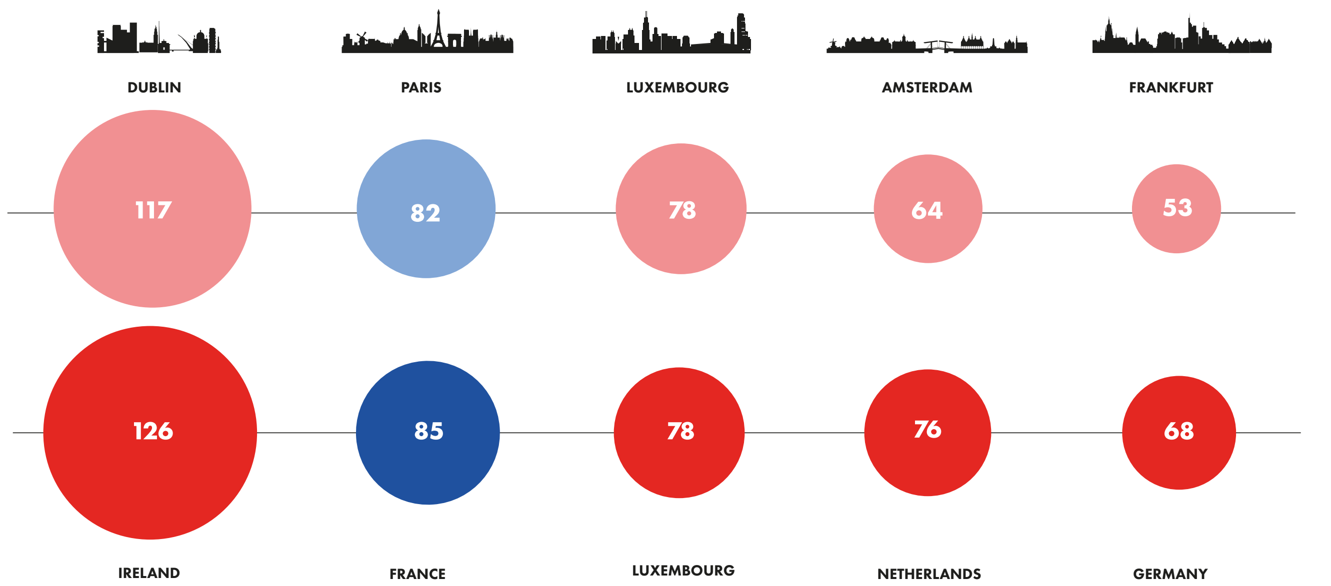
APPARENT STABILITY

At first glance, the ranking of European cities attracting the most Brexit-related movements has changed little since the beginning of 2019. Dublin, Paris, Luxembourg, Amsterdam, Frankfurt, Brussels and Madrid remain the most active markets, far ahead of another group of cities comprising Vilnius, Berlin, Munich, Cork and Milan. This apparent stability is particularly noteworthy in the case of **Dublin, which has maintained its leadership since the launch of Knight Frank's Brexit movements monitoring**. However, two cities stand out for their growing appeal. The first, Paris, has caught up with and recently overtaken Luxembourg and is now markedly ahead of Amsterdam and Frankfurt, while the latter was still close behind the French capital at the end of 2018. The second is Amsterdam, which has also widened the gap with the German city and confirms its ability to attract companies with a variety of profiles such as finance (52% of all certain or potential movements identified in the city, including 16% from Fintech), and also the pharmaceutical sector (13%) and the media (11%).

WHAT DOES THE FUTURE HOLD FOR EUROPEAN FINANCE?

The relocation of jobs from London and the, as yet relative, weakening of the British capital seems likely to benefit EU cities, with gains in jobs and images already evident. But what about in the longer term? While the Top

NUMBER OF BREXIT-RELATED MOVEMENTS, BY CITY / BY COUNTRY
SOURCE: KNIGHT FRANK, DEFINITE AND POTENTIAL PROJECTS OR ACTUAL RELOCATIONS. AS AT 1ST MARCH 2020.



5 cities account for almost 75% of all actual or potential Brexit-related movements, their geographical distribution nevertheless creates **a more complex and segmented European landscape**. This trend towards fragmentation, which the financial crisis has already encouraged, obviously raises the question of the future of European finance.

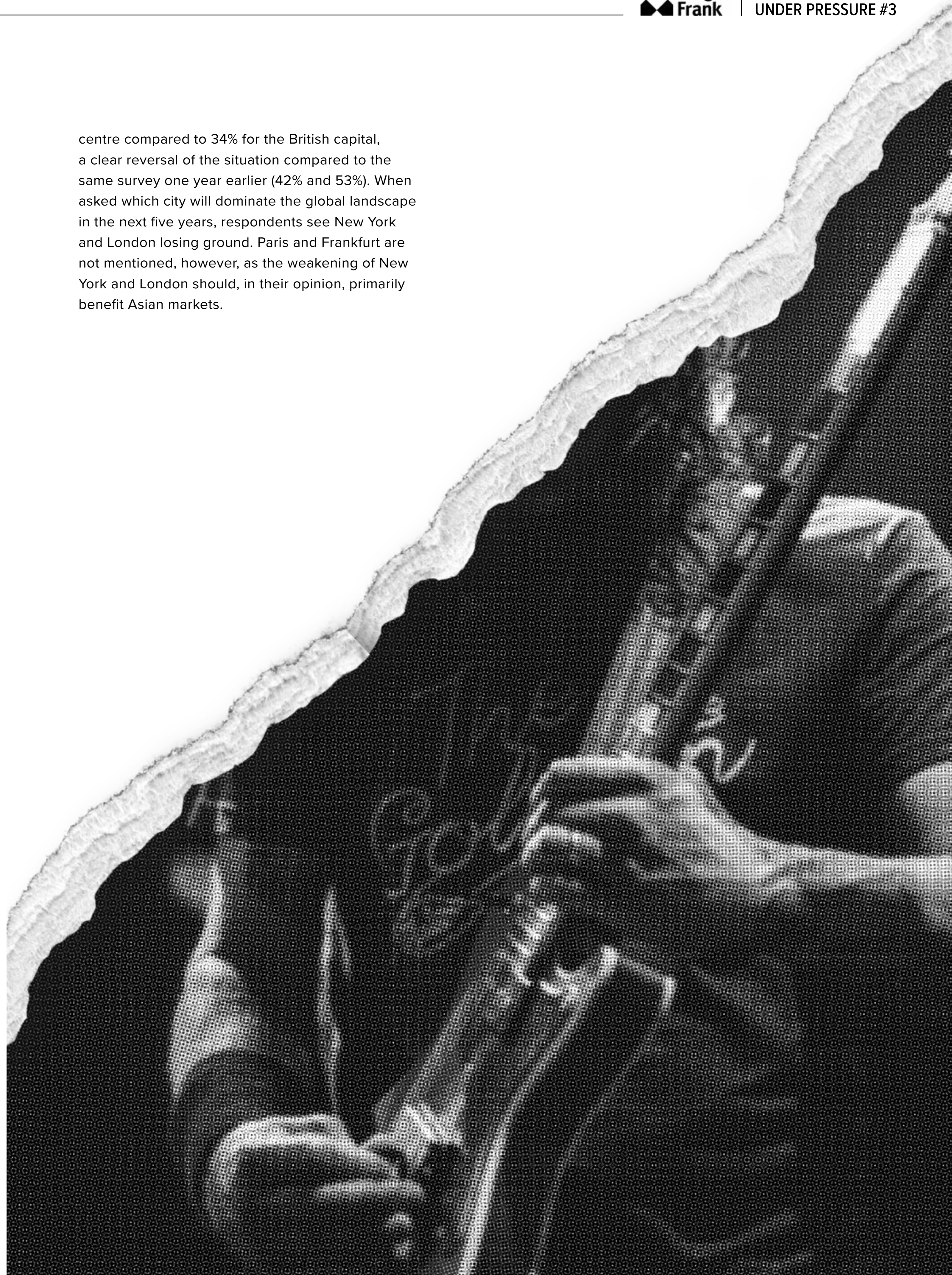
> "From a global standpoint, European capital markets are too small and fragmented. The goal of the capital markets union (or CMU) is to develop an ecosystem that will allow the development of strong European financial markets and intermediaries which are able to compete internationally".
>
> **Luis de Guindos, Vice-President of the ECB, 8 January 2020**

The subject of the fragility of the European financial system is a recurring concern of European Union supervisors and is further exacerbated by the multiplication of announcements of restructuring plans in the banking sector, with more than 100,000 job cuts projected since the beginning of 2019 worldwide. The latest announcements include the forthcoming loss of 35,000 jobs at HSBC, the majority of which will be in the Americas and Europe, and the relocation of the structured products division, currently based in London, to Asia. Having lost nearly 15% of its workforce between 2009 and 2018, the European banking sector could therefore continue to suffer in the coming months from banks' decision to reduce their presence on the Old Continent. **There are also questions about Europe's global standing**. Indeed, with the official implementation of Brexit, the European Union has disappeared from the Top 10 of the world's major financial centres, largely dominated by New York (1st), London (2nd) and several Asian cities such as Hong Kong (3rd), Singapore (4th) and Shanghai (5th). Frankfurt (15th), Paris (17th), Luxembourg (25th) and Amsterdam (37th) are far behind[1]. A study, recently published by Duff & Phelps[2], points to the risk of a weakening of Europe, but also of London, compared to other global cities. 56% of respondents cite New York as the world's leading financial centre compared to 34% for the British capital, a clear reversal of the situation compared to the same survey one year earlier (42% and 53%). When asked which city will dominate the global landscape in the next five years, respondents see New York and London losing ground. Paris and Frankfurt are not mentioned, however, as the weakening of New York and London should, in their opinion, primarily benefit Asian markets.

[1] Source: Z/Yen Partners & The China Development Institute, *The Global Financial Centres Index*, 2019.
[2] Source: Duff & Phelps, *Global Regulatory Outlook 2020.* Global survey of 240 business leaders in the financial sector.

THE GLOBAL FINANCIAL CENTRES INDEX SOURCE: Z/YEN PARTNERS

CENTRE	RANK SEPTEMBER 2019	RANK SEPTEMBER 2018	CHANGE IN RANK
NEW YORK	1	1	=
LONDON	2	2	=
HONG KONG	3	3	=
SINGAPORE	4	4	=
SHANGHAI	5	5	=
TOKYO	6	6	=
BEIJING	7	8	+ 1
DUBAI	8	15	+ 7
SHENZEN	9	12	+ 3
SIDNEY	10	7	- 3
FRANKFURT	15	10	- 5
PARIS	17	23	+ 6
LUXEMBOURG	25	21	- 4
AMSTERDAM	37	35	- 2
DUBLIN	38	37	- 1



IRISH HEARTBEAT

BREXIT AND THE DUBLIN MARKET

It is well-accepted **that Brexit represents the greatest risk to Ireland of any of the European Union member states** due to the deep economic and political linkages between Ireland and the United Kingdom. With trade negotiations ongoing, Ireland will be hoping that divergence from the current friction-free trade arrangement will be minimised so as to lessen the impact on the Irish economy. The exception to this negative exposure is the Dublin office market, with Knight Frank's research showing that **Dublin is the top location for Brexit-related moves with 117 announcements, approximately 40 to 50% ahead of its nearest competitors Luxembourg and Paris**. Therefore, the fact that the Dublin office market is the biggest beneficiary of Brexit-related announcements represents a significant exception to the potential negative economic impact that Brexit will have on Ireland. For real estate investors looking to hedge their risk to Brexit, it would suggest that Dublin office assets represent a channel through which they can mitigate their Brexit risk.

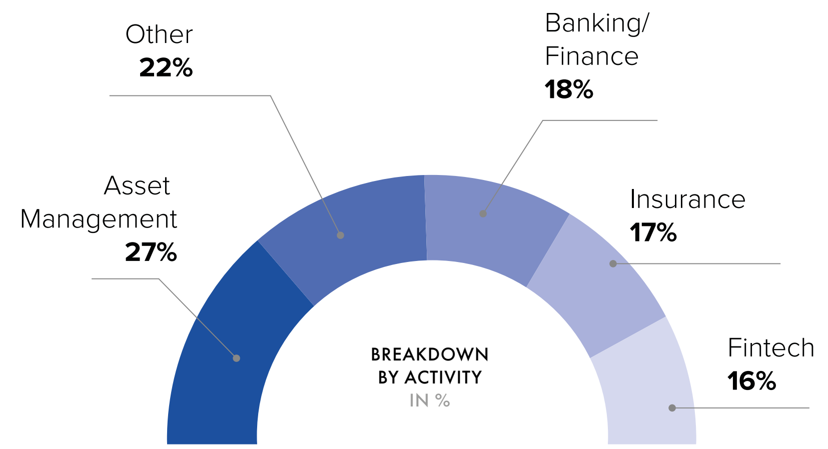
Looking at the breakdown of announcements in more detail, we see that approximately half (60) of these companies have taken space so far in Dublin meaning there is still a large number of companies left to do so. The proliferation of coworking and serviced office providers in Dublin in the past number of years – lead initially by Regus and Iconic Offices and more recently by WeWork – offers ideal occupier flexibility during an uncertain time such as Brexit, with **25 of the companies that have taken space in Dublin choosing to do so in coworking** and serviced office space. How trade discussions conclude will likely dictate the degree to which these companies expand in Dublin. All else being equal, the greater the regulatory and trade divergence between the United Kingdom and the European Union, the more office space will ultimately be taken by these companies in Dublin.

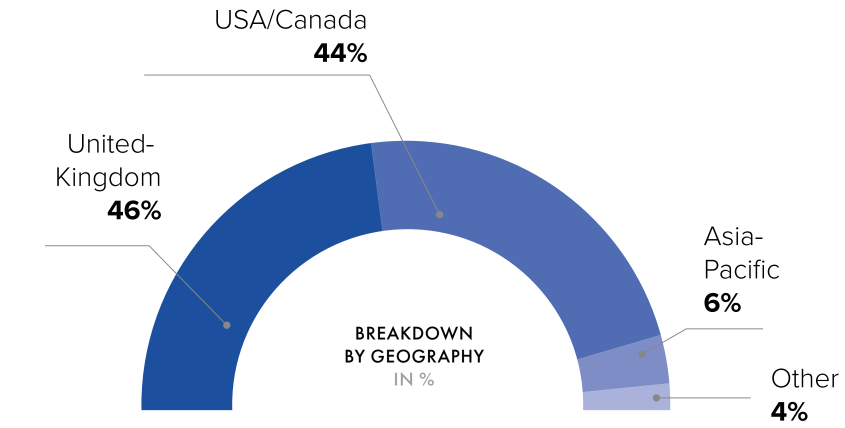
Playing in Dublin's favour is its already relatively large existing financial services sector infrastructure which ranges from the €1.8 trillion fund administration industry to niche areas such as aircraft leasing. In total, there are 986 fund managers with operations in Ireland (IMF, 2018) with the UK accounting for the largest share with 368. While many of these are presently back and middle office functions, it would make sense for asset managers that require a European platform to grow more front office activities out of Dublin on the back of existing operations that they already have located there. This is reflected in our research, **with asset management firms accounting for the largest share of Brexit-related announcements with 27%, ahead of insurance and fintech which have 17% and 16% respectively**.

Outside observers need only look at the flourishing tech scene in Dublin to realise the city's potential in becoming a sectoral hub. Tech companies are expanding at a phenomenal rate in the city, cementing Dublin's reputation as a global tech hub. The most recent example is LinkedIn, who recently agreed to pre-let 434,000 sq ft at their fast-growing city centre campus at Wilton Park. Upon completion, LinkedIn's footprint at this site will be in excess of 700,000 sq ft. Elsewhere, Salesforce pre-let 430,000 sq ft at RGRE's Spencer Place which will see the company treble its existing footprint. Due to its positioning as both a tech and financial hub, it is unsurprising that the Fintech sector in Dublin is rapidly growing. The latest and best example of this is Mastercard's taking of One and Two South County which will extend to over 240,000 sq ft on completion and grow Mastercard's workforce in Dublin to over 2,000 in the coming years. As part of the plan, Dublin will become Mastercard's European Technology Hub with cyber security, artificial intelligence, blockchain and user experience some of the research areas that will be developed at the campus. While Brexit has not been mentioned by tech companies as a motivation for expanding in Dublin, the surge in growth is unlikely to be coincidental when one considers that these companies typically draw on talent from across Europe for their operations.

In this context, the certainty that Dublin offers regarding the right of workers from across Europe to work in the city must surely be a significant factor behind these decisions.

ANALYSIS OF BREXIT-RELATED MOVES IN DUBLIN SOURCE: KNIGHT FRANK, DEFINITE AND POTENTIAL PROJECTS OR ACTUAL RELOCATIONS. AS AT 1ST MARCH 2020.





HIGH HOPES

BREXIT AND THE PARIS MARKET

CONFIRMED APPEAL

One of the most significant trends over the last twelve months is the progression of Paris in the hierarchy of cities attracting the largest number of Brexit-related movements. Indeed, with 82 certain or potential projects identified since 2016, **the French capital remains far behind Dublin but is moving up to second place in the rankings ahead of Luxembourg**, and is also widening the gap with Amsterdam and Frankfurt.

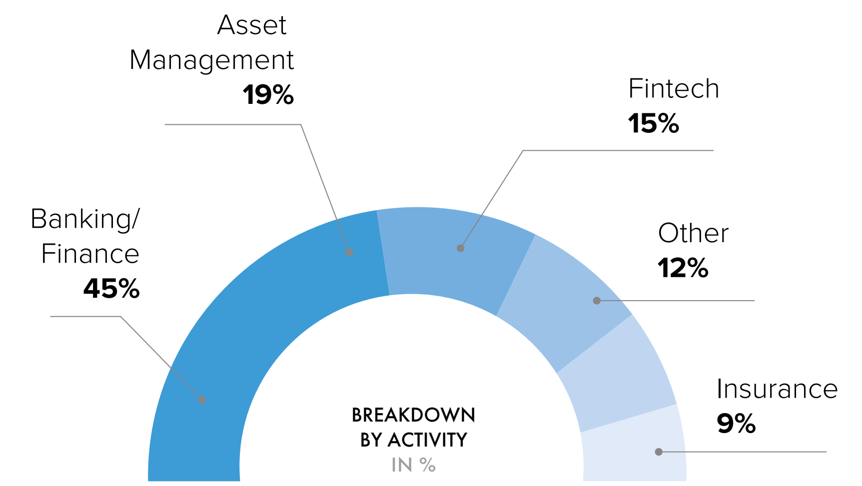
The influx of movements in favour of the Greater Paris Region bears witness to the improved image of Paris and confirms, more generally, that **the efforts made to revive France's appeal are paying off**. In addition to the strengths traditionally promoted by the capital region (quality of transport infrastructure, capacity for innovation, market size, etc), **a number of measures have been tailored to attract Brexit "exiles"**. The relaxation of legislation, particularly in the area of employment law, is a particularly important indicator, as are the reception facilities offered to families (international schools). Above all, the change in the tax and social security system for inpatriates is a strong argument that has enabled France to make up for its lack of competitiveness in relation to other European countries.

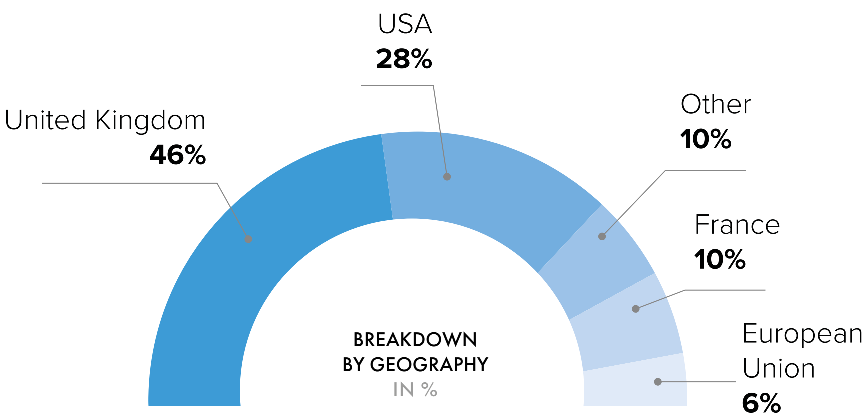
WHICH TYPES OF COMPANIES?

Which companies have targeted Paris to date as part of Brexit-related movements? Their profiles are somewhat varied, although British (46%) and American (28%) companies account for nearly three-quarters of them. The remaining foreign arrivals mainly relate to companies from Asia or the Middle East. Finally, French companies account for 10% of all Brexit-related movements in Paris. Among the most recent and most significant projects is **the return of Total's treasury management to the Greater Paris Region**. This project comes on top of the movements of leading national banks and the arrival in Paris of several companies previously established in the British capital but founded by French people, such as Fintech Smart Lenders AM (see interview on pages 17-18).

Although banking activities and asset management companies still account for the majority of Brexit-related movements in Paris, **the increase in the share of Fintechs is one of the most striking developments of the last twelve months**. Poorly represented until the end of 2018, they now account for 15% of the total number of relocation projects registered in the French capital as a result of new announcements (Ipagoo, etc.). Although the share of banks (33%) and asset management companies (21%) is higher, the share of Fintechs could continue to increase due to the high growth potential and the authorities' proactive policy to promote the French Tech ecosystem. Whilst the United Kingdom has just announced the introduction of more restrictive legislation on immigration, some French officials emphasised in particular the reception facilities offered to innovative companies and their employees of foreign origin. **Further confirmation that the search for talent is indeed the key to success in the new technologies sector.**

ANALYSIS OF BREXIT-RELATED MOVEMENTS IN PARIS BY WORKFORCE SIZE CATEGORY
SOURCE: KNIGHT FRANK, DEFINITE AND POTENTIAL PROJECTS OR ACTUAL RELOCATIONS. AS AT 1ST MARCH 2020.

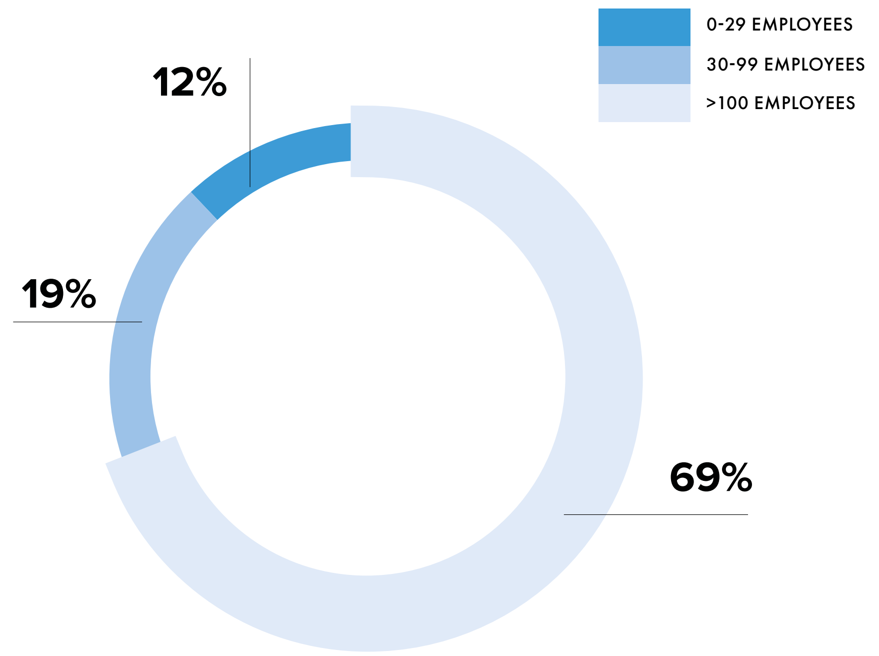




JOB GAINS REMAIN MODEST

Of the 82 Brexit-related movements recorded since 2016 in the Greater Paris Region, just over 60% have already taken place. The most important of these concern Bank of America and the European Banking Authority (EBA) for a total of around 500 employees. This volume represents a significant share of Brexit-related recruitment, estimated at nearly 1,500 in the Greater Paris Region today. According to our latest estimates, **potential or pending movements represent 1,800 to 2,000 additional positions, i.e. a high range of 3,500 positions for all Brexit-related job gains**. This figure remains below the target of 5,000 jobs recently communicated by Paris Europlace, but could be revised upwards in the coming months. Having established an initial foothold in Paris, some companies could consequently strengthen their presence there.

ANALYSIS OF BREXIT-RELATED MOVEMENTS IN PARIS BY WORKFORCE SIZE CATEGORY SOURCE: KNIGHT FRANK, DEFINITE AND POTENTIAL PROJECTS OR ACTUAL RELOCATIONS. AS AT 1ST MARCH 2020.



The second reason is of a methodological nature and is due to the lack of transparency concerning the projects of certain companies, whose movements are not necessarily announced before they actually set up in France. For example, the regulators (AMF and APCR) are subject to confidentiality and are aware of projects that they cannot make public[1].

Estimates of job gains have changed little since 2016, whether for 3,500 or 5,000 people. Their scale therefore remains limited in relation to the economic weight of the Greater Paris Region, where companies in the banking sector alone account for more than 100,000 employees. **The vast majority of Brexit-related projects involve a relatively small number of employees, with 69% of the movements recorded involving no more than thirty employees.** The proportion of projects involving less than 100 employees is 88%, while only about ten movements involve more than 100 employees. Brexit's impact on the office real estate market is therefore reflected in **an over-representation of leases for areas of less than 1,000 sq m**, including a significant proportion of areas of less than 500 sq m and several examples of installations in coworking areas or by way of sub-leases. The consumption potential of medium-sized offices, those between 1,000 and 5,000 sq m, is rather limited, while movements above 5,000 sq m can be counted on one hand. It should also be remembered, as we reported in our previous study, that several of the projects likely to create the greatest number of jobs are being undertaken by companies already present in the Paris region, with office space large enough to accommodate new employees.

[1] Choose Paris Region, Brexit-related relocation of activities in the Greater Paris Region, January 2020.

ALMOST EXCLUSIVE INTEREST FOR THE CBD

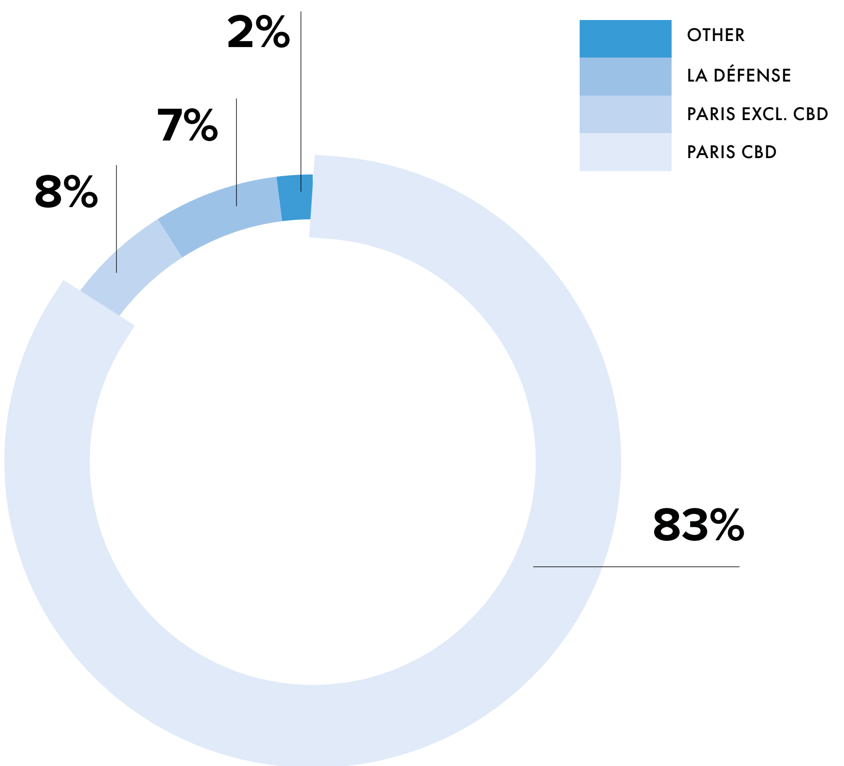
Taking all employee categories together, **Brexit-related leases represent approximately 55,000 sq m of office space in the Greater Paris Region**, slightly less than half of which has already been taken up. Unsurprisingly, Paris concentrates the largest share of these volumes leased, **with a particular focus on the central business district**. Among the most recent movements, Cooper Gay has leased 500 sq m at 71-73 Avenue des Champs-Élysées with the aim of expanding its presence in Europe. The National Australia Bank, one of Australia's largest banks, also intends to locate in Paris and should logically choose the CBD for its European hub.

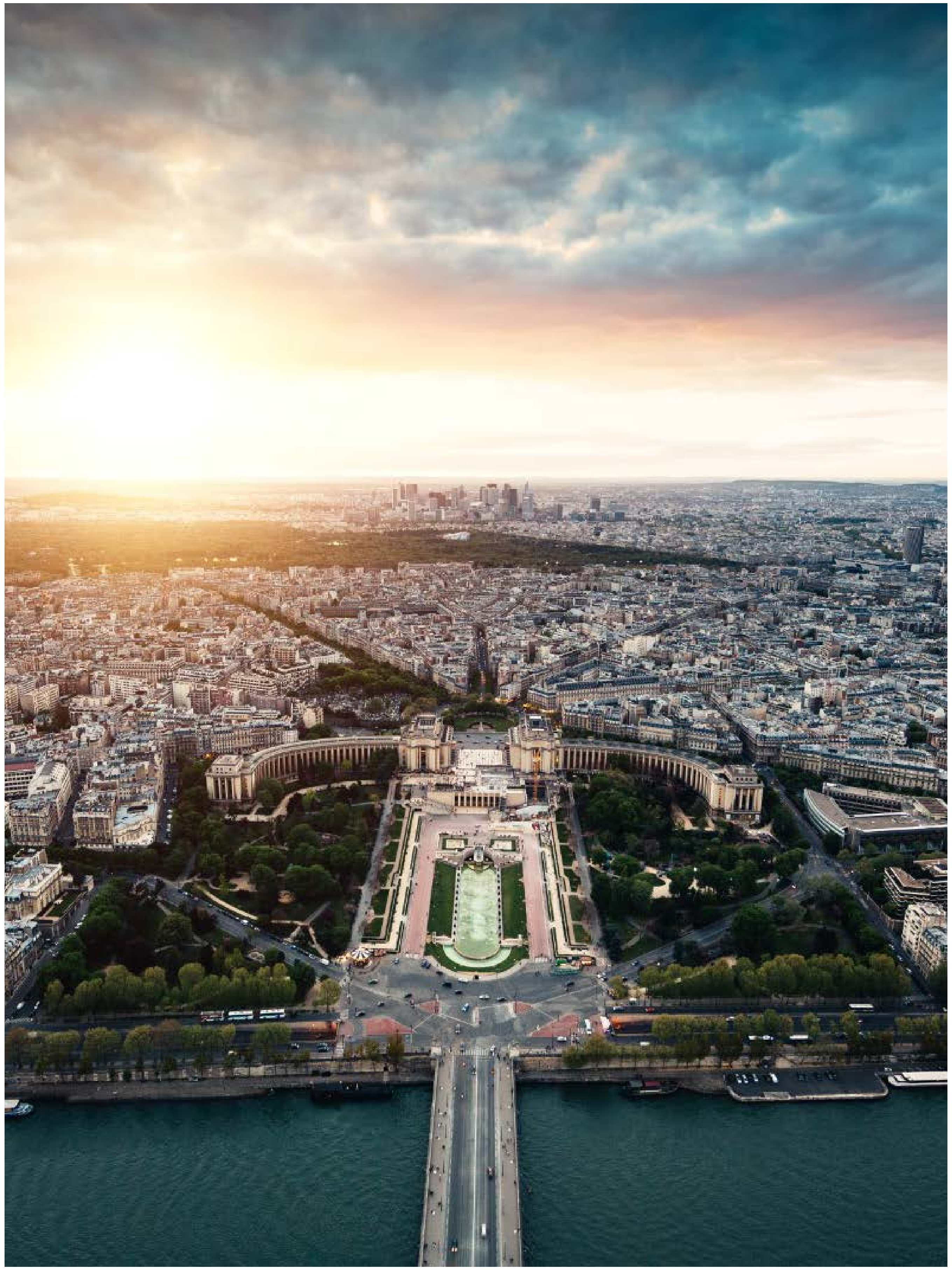
More importantly, JP Morgan has announced the acquisition of a 6,600 sq m building near Place Vendôme, **which would be the second largest Brexit-related transaction in Paris since 2016, after Bank of America's lease for almost 10,000 sq m at 49-51 rue La Boétie**. Favouring the most upmarket market sectors, these movements alone do not explain the increase in prime Paris Market Rents, which is the result of a more general dynamism in user demand in various sectors (consulting, coworking, new technologies, luxury, etc). **They do, however, add to the tension in a market that already has a severe shortage of office space**, with barely 92,500 sq m available at the end of 2019 (i.e. a vacancy rate of 1.4%).

Markets outside the CBD account for only 16% of Brexit-related movements in the Greater Paris Region. **The profile of companies is generally more varied**, with a mix of lawyers, insurers, major industrial groups and Fintechs. They have targeted a few Parisian districts in the West and on the Left Bank and Neuilly and, in particular, La Défense in the Hauts-de-Seine department. **In this business district, Brexit-related movements are, with the obvious exception of the European Banking Authority, essentially endogenous** (Chubb, My Money Bank, Total).

The next few months will determine whether La Défense has been able to attract new companies thanks to the influx of high-quality office space on the market and the increasingly limited and expensive supply of office space in inner Paris. The CBD is nevertheless likely to remain the almost exclusive target of Brexit-related movements in the Paris region: **consulting and international finance companies are traditionally drawn to an address in the capital's most beautiful districts** and are therefore less reluctant to pay high rents there. Moreover, these sectors have always been the source of the most expensive transactions, accounting for nearly 40% of the total number of leases signed at rents in excess of €750/sq m/year over the last twenty years in Paris.

BREAKDOWN OF BREXIT-RELATED MOVEMENTS BY GEOGRAPHICAL SECTOR IN THE GREATER PARIS REGION. SOURCE: KNIGHT FRANK, DEFINITE PROJECTS AND ACTIVE SEARCHES IDENTIFIED BMID-2016 AND 1ST MARCH 2020.





INTERVIEW

CHOOSE PARIS REGION

Lionel Grotto
CEO

What is the role of "Choose Paris Region"? Have you set up any special assistance for Brexit-related projects?

The Choose Paris Region agency is a one-stop service for foreign companies and investors who want to develop in the Greater Paris Region. The aim is to provide tailored support for each type of project, but with the broader aim of increasing France and the Greater Paris Region's appeal: within this framework, we support certain key projects, such as the development of international education.

Choose Paris Region is a team of 75 people who have been present for 13 years in Paris, Beijing, Shanghai, San Francisco, Boston and New York. We support more than 1,250 investment projects in the Greater Paris Region every year. In order to project a coherent image and to be more effective, it is essential that all players in the region work together. **We therefore coordinate private and public economic players so that they speak with one voice on an international level, and collectively offer services** that meet the needs of investors. The agency now forms a genuine one-stop service that has taken over from the one created shortly after the announcement of Brexit. It is the result of a common desire on the part of the State, through Business France, the Greater Paris Region, the Greater Paris Metropolitan Area, the City of Paris, Paris&co and the Paris-Greater Paris Region Chamber of Commerce and Industry, to work together to simplify the welcoming of companies and their employees.

This one-stop service has notably enabled the successful relocation of the European Banking Authority (EBA) to the Greater Paris Region, effective since June 2019. On the strength of this successful accompaniment, Choose Paris Region has expanded its services and now **offers the HR departments of the groups we support a range of services to promote international mobility, which has become essential for boosting the Greater Paris Region's appeal to foreign talent (researchers and employees)**.

Since its creation, what types of players have been supported?

We are aware of **283 Brexit-related office and industrial set-up, investment and team relocation projects** since the 2016 referendum, accounting for 10,193 jobs. The Greater Paris Region has been the target of 136 projects representing 5,484 jobs, even if the relocation of these jobs has not necessarily taken place yet.

The main sectors involved are finance (53% of projects and 63% of jobs) and services (15% of projects and 17% of jobs). The main countries of origin of the projects are the United Kingdom (43% of projects and 22% of jobs) and the United States (19% of projects and 33% of jobs). China, Japan and Singapore together account for 13% of the projects and 14% of jobs and complete the top 5 countries list. 30% of decisions affected an English subsidiary located in London. 45% of the projects are SMBs/MSBs, 40% are large groups, and 15% are start-ups.

Of all the projects monitored by Choose Paris Region, several reasons have been identified. **62 companies applied for a financial passport** as the regulatory issue was key for them (the AMF granted 42 company authorisations in 2019). **Other companies expressed fears about visa procedures and the free movement of their employees**: this mainly concerns companies with very international teams. For others, the fact that one of the directors is of French origin may have played a role. Some companies expressed fears about rising customs duties or logistics costs, while others wanted to continue to benefit from European subsidies.

With regard to industry, several announcements confirmed plant closures, postponements of openings, or the cancellation of new production lines. The Society of Motor Manufacturers and Traders (SMMT), for example, announced in a July 2019 memo that 20% of companies in the automotive sector have lost markets due to Brexit. 12.4% have transferred their operations abroad and 12.4% have reduced their workforce.

What are the most common questions foreign companies ask about setting up in the Greater Paris Region?

The main issue is market and customer access more than tax or labour cost issues. Depending on the sector, there are also sometimes questions related to administrative procedures or regulatory and legal conditions, the main steps in setting up a business, available funding and possible state or regional aid. But **the questions relate more and more to the quality of life**. Companies are seeking to associate their brand with a region and premises that speak positively of their brand because the issue of talent recruitment has become key. For example, one company in the tech sector wanted to be able to discuss its R&D centre project with other players in the Greater Paris Region who had recruited at least 100 data scientists and engineers in the field of artificial intelligence, in order to gain a true insight into the difficulty of recruiting this type of staff in such large numbers.

For industrial projects, the issue is the availability of land or buildings ready within a short time frame. We are in the process of putting together an offer with the support of the Greater Paris Region, the State, private partners, energy and rail network operators, and the region's major industrial areas. **We are preparing to re-establish the Greater Paris Region's specialisation in industrial set-up that has been somewhat lost over the years**.

What are the main strengths of the Paris financial centre? Who are its European competitors and why?

Along with London, the Greater Paris Region is the only place that is a global capital, and no other European conurbation has the same global appeal. For example, it is by far the region that receives the most foreign direct investment from the United Kingdom. These factors are reflected in recent key world rankings. It is the most attractive European conurbation (37% of decision-makers consider Paris Region to be the most attractive European conurbation, compared with 34% for London). The number of projects is increasing in key functions: decision-making centres (+2%), R&D centres (+32%) and production centres (+63%), illustrating the real confidence of foreign investors in the region's research and industrial potential. In 2018, it was also the 2nd most attractive region in the world according to KPMG (Global Cities Investment Monitor) and the leading location for attracting international R&D centres. Between 2015 and 2018, the Greater Paris Region moved from 6th to 1st place among the world's conurbations in terms of the number of foreign direct investment projects. Today, the Greater Paris Region is once again ranked by fDi Intelligence as the leading European Region of the future in 2020/21.

We do, however, have competitors, and these vary by sector. In addition to London, they are Dublin, Frankfurt, Madrid, Amsterdam and Zurich for finance. Berlin and Düsseldorf are also dynamic, particularly in the tech sector, and benefit from an extremely positive image amongst investors. Several Eastern European countries, particularly Poland, Serbia and Hungary, as well as Germany and Spain, are competitors for industrial projects. It should also be stressed that competition is not only with European conurbations. It is also found at a global level, especially in R&D and production functions, **which reinforces the need to strengthen cooperation to develop Europe's appeal, whilst simultaneously competing with these other European cities**.

ALRIGHT

BREXIT AND THE LONDON MARKET

LONDON'S CARPE DIEM MOMENT

With the official Brexit day behind us, London is already seizing the opportunity to reinvent, reposition and reaffirm itself as the world's most attractive destination for people, businesses and investors.

WORLD CLASS EDUCATION

London's agglomeration benefits, hard to rival cultural offering, diversity and inclusion factors are central to its position as a leading world city. Arguably more importantly, its educational institutions are critical in attracting talent, generating affluence and fostering innovation. Attracting and retaining talent has become a major challenge for businesses. 54% of global corporates are reporting a talent shortage - a ten year high (Manpower Group[1]). **London however, is well positioned to help businesses with this challenge through its highly skilled and educated workforce, which is drawing in global organisations**. To an extent, this has helped shield the city's commercial property market during the heightened political uncertainty in the wake of the Brexit referendum, with annual take-up averaging 13.8 m sq ft between 2016 and 2019, nearly 7% ahead of the 15-year average.

The city's education also has global appeal, with 53% of students attending London's top 200 universities coming from overseas. The power of diversity of this talent and wealth of knowledge generation is a fundamental pillar of London's success. This is further evidenced by the fact that London has been positioned in second place, behind New York, in the World Economic Forum's 2020 Global Talent Competitiveness Index for cities, a measure of a city's ability to grow, attract and retain talent.

As an example of the capital's strength in innovation, London has four universities which sit in the top 75 (of 343) universities ranked globally[2]: UCL (rank 11), Imperial College London (rank 25), King's College London (rank 51) and Queen Mary University of London (rank 75). Their high ranking reflects their ability to produce research relevant to industry innovation and infrastructure, generate patents, create spin-offs and undertake research with the support of industry.

To illustrate the type of activity universities such as these are helping generate, according to the Centre for Entrepreneurs there were over **221,000 new business formed in London during 2019, approximately one third of all new businesses in the UK**. 17,400 of the new capital registered businesses were tech. Furthermore, between June 2016 and June 2019, the tech sector created 30,000 net new jobs in London, positioning it ahead of professional services (28,000), traditionally the backbone of London's economy, alongside financial services.

[1] ManpowerGroup, *Talent shortage 2020*.
[2] Source: Times Higher Education.

TECH AND THE CITY

Indeed, London has already positioned itself at the centre of the global tech explosion, emerging as the world's fastest growing tech scale up cluster, while the UK has spawned 35% of Europe and Israel's 169 Unicorn tech businesses (Technation, 2019). **And the birth of these tech businesses in London and the flocking of others to the capital is largely down to one critical differentiator**: a highly educated workforce and diverse pool of top talent. The impact of the rapid expansion of the tech sector has been very evident in the London office market with 2019 seeing technology businesses accounting for 22% of total take-up, making it the second most active sector behind finance and banking (23%). In submarkets around London's traditional tech cluster – Old Street – activity has been particularly pronounced, with Farringdon and Clerkenwell for instance experiencing an exponential increase in office leases by technology businesses. The share of the tech sector rose from 12.9% of all lease deals in 2004, to just over 44% in 2018. **The City core too has registered a surge in tech-linked take-up, which rose to an all-time high of 26% of all leases in Q4 2019, making the sector the largest absorber of office space**.

A BOLD NEW FUTURE

The capital's growing population and number of STEM roles (science, technology, engineering and maths roles) are forecast to continue to increase, supporting the continued growth of innovation and knowledge clusters around the city. These include Kings Cross and Euston as an established centre, with a range of innovation generators that include Google and Facebook. Other knowledge clusters are emerging from White City in the west, to Here East, adjacent to the 2012 London Olympics Games site. Battersea too is expected to join the tech-cluster club once Apple moves into its new London campus in 2021, where it pre-let just under 470,000 sq ft in London's iconic Battersea Power Station.

It is in these emergent knowledge clusters where London's future lies and it is the power of the city's human and knowledge capital that gives us confidence in the ability of London to sustain its position as a hub for people, businesses and investors.

OFFICE MARKET BACKDROP

For the most part, London's commercial property market has remained resilient in the face of the political stasis fuelled by the uncertainty surrounding Brexit. Demand and take-up of office space from businesses was relatively stable last year. The total amount of office space leased stood just shy of 12.8 m sq ft, while named active demand stood at 9.6 m sq ft as we ended 2019.

One of the key issues for London's office market has been a shortage of options, particularly for larger amounts of space, with over 50% of the supply pipeline already spoken for as businesses move to pre-let space well ahead of completion where possible, while others are increasingly opting to regear instead.

The raiding of the supply pipeline is driving a number of changes in the market, with location agnostic behaviour amongst occupiers increasingly prevalent, along with signs to suggest we are likely to see more wide-ranging partnerships between occupiers and landlords. These partnerships are expected to stem from the desire for bespoke space, which will command rental premiums and possibly even help to lift falling average lease lengths.

For now, with supply lagging demand levels and no clear sign of respite from the dearth of office stock on the market, we forecast continued rent rises across the board, with all the submarkets we monitor projected to experience double digit growth. With prime headline rents already at all-time highs, we expect rents in the west End to reach the low £130's per sq ft by the end of 2024, while the City will experience slightly stronger growth of 20%, pushing rents to £87 per sq ft over the same period.

SAFE EUROPEAN HOME

INTERVIEW
KNIGHT FRANK

Mark Harvey
Partner
Department Head
International Residential

BREXIT AND THE RESIDENTIAL MARKET

The impact of Brexit on the high-end residential market has no doubt been less commented on than its impact on the office market. However, the dynamism that has been seen since the 2016 referendum in most of the major European Union cities is no coincidence. Although not the only contributing factor, Brexit has helped to make these cities more attractive to international investors at a time when the London residential market was experiencing a noticeable slowdown.

The 3rd edition of our Brexit report series gives us the opportunity to revisit these trends, thanks to the insights of Mark Harvey, Head of Knight Frank's European Sales.

In recent years, the high-end residential market has seen an increase in activity in several major European cities. What have been the driving forces behind this?

European cities have certainly outperformed London in recent years. A combination of Brexit uncertainty and successive stamp duty increases in the UK, and most recently a general election, have made international and domestic buyers consider their position and led to the market pausing for breath. That said, a weaker GBP and a recent landslide victory for Boris Johnson have helped jumpstart the residential market again.

As the UK faced a notable slowdown in activity, **buyers have been attracted by perceived value in Europe, cheap mortgages and wider tax incentives which a number of European states now offer**. With cities like Madrid, Berlin and Lisbon offering prime residential choices at €8,000, €10,000 and €8,000 respectively it is hard not to see such vibrant cities as compelling alternatives to London where prime prices are at least twice those levels. Add to this fixed loans at sub 2% and you can begin to understand why mainland Europe has been outperforming it's old member state. As Europe seeks to capitalise on the UK's woes, a number of European member states are offering golden handshakes and other favourable tax incentives to roaming or worried high net worth individuals eager to combine lifestyle and low tax rates.

Brexit has been responsible for several thousand job relocations outside the UK. Have these movements of employees with generally high incomes had an effect on the high-end residential markets of the cities concerned, both in terms of renting and buying apartments (Dublin, Luxembourg, Paris, etc.)?

Prices in all these cities are rising sharply as investors capitalise on the small inventory levels. **Both rents and house price inflation have risen sharply from albeit historic lows. Whilst the numbers of exiteers had been exaggerated, the additional shift in investor activity seeking an alternative more liquid and advantageous investment** has led to double digit growth over the last 4 years in most of these locations.

Considering its economic and tourist importance, Paris, like London, enjoys a special place in Europe. How has its high-end residential market changed in recent years?

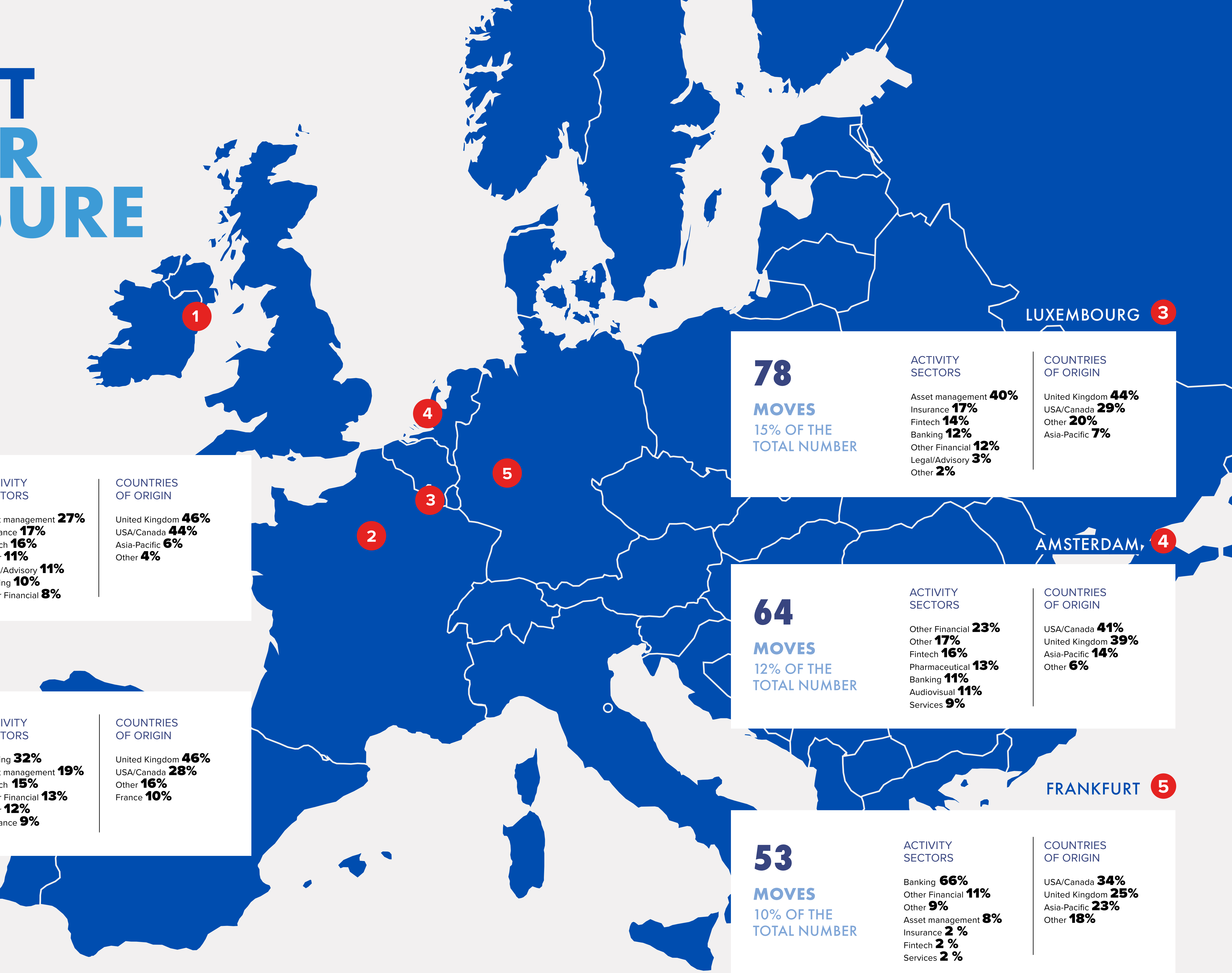
The outflows that first started during the Hollande era have reversed **and we have not only seen a return of foreign buyers but a marked return of French funds and expatriates keen to make the capital of lights theirs again**. Buyers still seek period buildings in the most prestigious locations but there is a preference for turnkey and somewhat smaller (160 sq m) family apartments which are generally deemed more liquid, less expensive to run and generally less of a burden. Interesting to note that this phenomena is being seen across many of our second home markets.

The focus remains on those tried and tested locations namely the 6th, 7th, 8th and 16th but as Paris becomes increasingly attractive to foreign and domestic buyers many areas are enjoying strong changes and their own revivals.

Has Paris benefited from a "Brexit effect" in this respect, and what other factors have made the city more attractive?

While much of the prime demand may have been partly influenced by Brexit, **it is the improving macro-economic factors that are driving this real estate success**. This, coupled with consumer confidence, falling unemployment, increasing wages, low inflation, low interest rates and increased awareness of the importance of real estate as an investment vehicle, has helped get the French residential market on its feet again.

BREXIT UNDER PRESSURE #3



1 DUBLIN

117

MOVES

22% OF THE TOTAL NUMBER

ACTIVITY SECTORS
- Asset management **27%**
- Insurance **17%**
- Fintech **16%**
- Other **11%**
- Legal/Advisory **11%**
- Banking **10%**
- Other Financial **8%**

COUNTRIES OF ORIGIN
- United Kingdom **46%**
- USA/Canada **44%**
- Asia-Pacific **6%**
- Other **4%**

2 PARIS

82

MOVES

15% OF THE TOTAL NUMBER

ACTIVITY SECTORS
- Banking **32%**
- Asset management **19%**
- Fintech **15%**
- Other Financial **13%**
- Other **12%**
- Insurance **9%**

COUNTRIES OF ORIGIN
- United Kingdom **46%**
- USA/Canada **28%**
- Other **16%**
- France **10%**

LUXEMBOURG 3

78

MOVES

15% OF THE TOTAL NUMBER

ACTIVITY SECTORS
- Asset management **40%**
- Insurance **17%**
- Fintech **14%**
- Banking **12%**
- Other Financial **12%**
- Legal/Advisory **3%**
- Other **2%**

COUNTRIES OF ORIGIN
- United Kingdom **44%**
- USA/Canada **29%**
- Other **20%**
- Asia-Pacific **7%**

AMSTERDAM 4

64

MOVES

12% OF THE TOTAL NUMBER

ACTIVITY SECTORS
- Other Financial **23%**
- Other **17%**
- Fintech **16%**
- Pharmaceutical **13%**
- Banking **11%**
- Audiovisual **11%**
- Services **9%**

COUNTRIES OF ORIGIN
- USA/Canada **41%**
- United Kingdom **39%**
- Asia-Pacific **14%**
- Other **6%**

FRANKFURT 5

53

MOVES

10% OF THE TOTAL NUMBER

ACTIVITY SECTORS
- Banking **66%**
- Other Financial **11%**
- Other **9%**
- Asset management **8%**
- Insurance **2 %**
- Fintech **2 %**
- Services **2 %**

COUNTRIES OF ORIGIN
- USA/Canada **34%**
- United Kingdom **25%**
- Asia-Pacific **23%**
- Other **18%**

Source: Knight Frank/Press/Research reports/Development agencies.

NB: definite and potential projects or actual relocations. As at 1st March 2020.