Key Findings
Authentic environments make our European cities attractive to both employees and employers

Cities Overview
Europe’s high quality city centres are a big draw for companies seeking workspace

Economic Growth
European cities are economic powerhouses that buck the trend of national economics

Job Creation
Tech is growing faster than finance and is vital to job creation in European cities

Global Powerhouses
Can London, Paris, Moscow and Madrid retain their world city status?

Real Estate Costs
Residential real estate may cost a company more overall than workspace

Occupier Futures
Where a city is placed within the rental cycle is an important consideration for occupiers

Urban Accelerators
Berlin, Dublin, Stockholm and Milan all have a strong reputation that belies their size

Financial Focus
Are Europe’s finance centres threatened by the post-crisis decline in traditional banking and investment?

The Contenders
Can Amsterdam, Brussels, Frankfurt and Warsaw compete with the global powerhouses?

Corporate Tax Costs
Taxation regimes have a considerable impact on an organisation’s bottom line

Europe’s Next Financial City
As Brexit looms, the shortlist for alternative European financial cities is revealed

RESEARCH METHODOLOGY
In order to truly compare the cost of residential and commercial real estate across different global cities, we use the Savills Executive Unit (SEU), which measures the cost of housing an identical group of people living and working in different countries. The people who make up our SEU include one middle-aged expat CEO, one senior expat director, a locally employed director and four locally employed administrative staff. They each live in different types of household and each member of the group chooses different types of locations and different types of property in which to live. To measure office costs, we place the same seven people in an office of a small financial services firm and again in a creative start-up – each located in the most appropriate district for their industry type.
Key findings

Prospects remain strong for Europe’s major cities

- European cities have many of the characteristics of highly successful world cities that make them very attractive to workers looking for ‘urban buzz’ and a high quality city lifestyle. Their authentic environments, varied cultural experience and high quality of living makes the European cities in this study attractive not only to employees but also to employers.

- New digital industries disrupt working practices and are growing at a faster rate than conventional finance and business services. Companies are searching globally for the Human Resources they need to win in this environment. This means that companies’ location choices will increasingly be made by the HR rather than premises departments. The questions they will ask are “which cities will help attract human capital?” rather than “where will property costs help save financial capital?”

- Europe does contain some of the world’s global powerhouses: the top ranking cities which continue to attract people as well as global investment. Often, they act as hubs to wider, dispersed city networks. They are unlikely to lose this status in the foreseeable future and are adapting well to the digital age. London, Paris and Madrid now employ more people in their information and communication sectors than in their financial and insurance sectors.

- London and Paris are the two most global cities in Europe and accommodation costs in these cities reflect that success. Large workforces result in high demand for space in the city which pushes up rents and land values in old cities where space is limited.

- There is a big fall-off in annual accommodation costs per worker to the next tier of European cities. Milan, Dublin, Amsterdam, Moscow and Brussels are around half the cost of London at present.

- The cheapest cities in Europe in which to accommodate staff are Warsaw, Berlin, Frankfurt, Madrid and Stockholm. Warsaw is just over a quarter of the cost of London.

- In some cities, this expense ranking is likely to change. Workspace rents are forecast to rise over the next year in Amsterdam, Dublin, Paris, Madrid, Milan and Stockholm. They are broadly stable in Brussels, Frankfurt, London and Warsaw, giving occupiers more certainty on real estate costs.

- Where real estate costs are scrutinised, it is becoming as important to look at residential affordability as well as commercial property costs. Young creative workers are increasingly attracted to good, small cities offering cheaper accommodation as they are priced out of the big, global financial centres. This is part of the reason why some very small European cities like Berlin, Dublin and Amsterdam are hugely successful and punching above their weight economically. Their worldwide fame belies their size.

- Brexit has raised questions on London’s future as a financial centre and speculation is rife as to which European city might win London’s business. The evidence of this report suggests that no single city will take London’s crown but rather the EU passporting functions of many institutions will be dispersed throughout Europe to a variety of cities for different reasons.

- Some small cities, especially those in which it is easy for multinationals to do business, those with favourable tax regimes and strong English language capabilities could do well in attracting global companies but few of these cities have the stock capacity to accommodate many large relocations from London – or elsewhere, especially in the short term. Some cities which larger levels of office supply may find their corporate and personal tax regimes discourage some companies.

- Taking a combination of measures into account, London still stands out as the most attractive European city for the finance sector. We think it will continue to serve as a global finance centre but in partnership with some smaller European cities for passporting functions.

- Overall, there are good reasons to expect further growth in both the economies and real estate markets of many European cities. Often the strength of the city will buck the trend of the country in which it sits so national comparisons are less useful than city comparisons.

- The strength of occupier markets should continue to attract global investment in many European cities and to start attracting it in others. The attractiveness of these cities to investors is important for occupiers in the long run as it will determine whether they can find sufficient workspace of the right type in the right place and whether housing is affordable for their key workers. The economic and demographic strength of most of the European cities in this report is such that both occupier and investor demand should be assured.
This report is about the people and organisations who live and work in European cities. Companies looking for workspace in Europe have a great variety of cities to choose from. We have selected 12 to examine in more detail, ranging from the global megacity of London to the much smaller, specialist cities of Frankfurt and Warsaw.

European cities stand out among other global cities for many reasons. For occupiers, some rents and occupation costs can look low and competitive compared to other global cities and there is a large, prosperous and educated workforce. But, corporations can be discouraged by the sheer variety of languages, taxation, real estate law, customs and transparency across the continent.

We have examined some of these issues, including corporate and personal taxes, workspace and living space costs and availability. We have characterised and identified the strengths of different cities, their populations and economies so that organisations can see which cities suit them best and for what reasons – on a directly comparable basis.

The results suggest there are a host of reasons to take a closer look at real estate in European cities for business occupation, not least young, talented productive and educated workforces.

The European cities we have examined in this document look very different to other gateway global cities in the US and Asia. Some can be much smaller than their world fame might suggest. This, and being denominated in a relatively unpopular world currency, means only the investment giants of London and Paris and the economically strongest nations have attracted large amounts of cross-border capital investment in recent years. But the fundamentals of underlying occupier demand are strong and the cities are in a good position to compete for companies and workers looking for a home.

We think the perceived disadvantages of leasing or buying property are overdone in the cities studied. High-performing cities with good prospects for economic and population growth, able to compete on the global stage, are being overlooked by both employers and investors because they co-exist on the same continent beset by anxiety over the future of the euro, the EU project or the European economy. But, in common with cities worldwide, the best European cities seem able to function at least somewhat independently of the states and unions in which they sit. They deserve a closer look and their real estate markets have much to offer both occupiers and owners.

“Just as not all European countries are behaving alike, neither are European cities. Some are bucking the economic and demographic trends of their home countries”
The Economics of European Cities

Cities are the powerhouses of the European economy and most buck the trend of national economics. Growth is powered by new technology in most cities but on the shoulders of traditional finance and business services.

European economic growth since the millennium has been highly cyclical. Both countries and cities showed similar levels of growth in the lead up to the global financial crisis, at an average of 25% and 28% respectively, followed by an average of -4% in the following recession. The big difference has been in the recovery. Cities have led this.

On average, GDP in European cities has grown by 21% since the end of the latest recession compared with 15% in the countries in which they sit. The biggest risers have been Dublin, where city GDP is up 57% since 2009, Warsaw up 34% since 2008, London 27% and Amsterdam, 21%. A few cities, Moscow, Frankfurt and Brussels have underperformed their host countries.

In the post-industrial era, the rise of cities has been closely tied to the expansion of the financial and business services sector but there are signs that this sector has been contracting in some specialist cities or in locations where the financial crisis was particularly hard felt. Madrid’s financial and insurance economy, for example, shrank by 22% between 2006 and 2016. On average, across the 12 cities, financial GVA grew by 23% in the last 10 years, while tech grew by 55%. We expect the gap in growth rates between the tech and financial sectors to continue widening.

The city economies in this study divide into three groups. We have called the four largest economies ‘Global Powerhouses’. London, Moscow, Paris and Madrid produce high levels of economic output, measured by GVA (gross value added), ranging from €193 billion to €428 billion. The four mid-size economies are the ‘Urban Accelerators’: Milan, Stockholm, Dublin and Berlin produce GVAs of between €103 billion and €139 billion. The four smaller economies are dubbed ‘Contenders’ and their economies are between €52 billion and €88 billion.
When we think about the successful cities of the late 20th century, the growth of the service sector, and finance in particular, is the main story. Although finance is often the most lucrative contribution to a city’s economy other sectors are more important to job creation.

In over half of our European cities (London, Paris, Madrid, Berlin, Milan, Amsterdam and Stockholm), information and communication sector jobs are at least as important as finance in job creation and often considerably more so. This data driven sector is evolving rapidly as it includes important new tech jobs.

‘Information and communication’ in Madrid and Paris is more likely to mean larger engineering concerns like telecoms than small innovative start-up and scale-up tech. We would categorise this as ‘big tech’ rather than ‘creative tech’, more likely to involve R&D and manufacturing in less central or out-of-town locations or designated parts of the city rather than in the urban centre – although there are urban ‘creative tech’ quarters, like Malasaña or Pigalle, in both cities. Either way, a significant proportion of the cities’ employees are in this sector.

Dublin is an interesting exception among the cities that we have looked at. It has a huge reputation for being a tech city (it ranks 12th globally in our Savills Tech Cities ranking) and has managed to attract some very big and globally renowned tech companies. However, this activity does not seem to have created so many jobs in the information and communication sector as this reputation might suggest. Dublin has more workers in its finance and insurance sector, revealing the role of Dublin as a global regional tech administration, legal and finance centre rather than a tech innovation hub.

Moscow, Warsaw, Frankfurt, Milan and Brussels have fewer tech sector jobs than finance related jobs reflecting their strong regional positions servicing local business and investors. Brussels finance and insurance sector is closely related to the EU organisations in the city, Milan to the design and fashion industries. Moscow services the whole of the Russian Federation while Frankfurt and Warsaw’s financial hinterland extends over Europe as a whole and Eastern Europe respectively.

“Stockholm, Berlin and London stand out as the innovative tech cities which are employing a significant number of people in this sector and attracting considerable global talent”
The Global Powerhouses
Can London, Paris, Moscow and Madrid retain their world city status?

Not surprisingly, the two most global cities, London and Paris are the most expensive in which to accommodate staff.

The average accommodation costs per person for workspace and living space in each city is €85,000 and €72,000 per year respectively. Most of these accommodation costs are for residential property.

Despite their size and global status, Moscow and Madrid have real estate markets that are less international than London and Paris so both capital values and rents are lower. Madrid looks extremely good value for occupiers on the global stage in terms of property costs, especially for workspace and living space in each city is €85,000 and costs in the dominant, giant cities and those in the smaller but cheaper ‘second tier’ cities. The global powerhouses will therefore have to maintain or increase their attractiveness to occupiers in order to compete in future. Some European cities will be able to do this on the basis of cost, others on the basis of workforce size and strength. None can afford to be complacent.

Looking forward, the continued success of global cities will depend on young, talented and growing workforces that are able to maintain and increase this productivity. Figure 7 shows the underlying demographic strength of our different cities. We have ranked them strong if they have a large, growing and young workforce and consider that they will be weakened economically by the drag on resources and issues presented by an older, dependent population in future.

What the global cities offer is access to international markets with large, diverse and skilled workforces with the capability of attracting human capital from a global pool. It is this which can offset any local demographic weakness. ■

“The global powerhouses are in competition with smaller European cities which are able to offer high quality but accessible alternatives to the megacity”
In London, the regeneration and improvement of old neighbourhoods and the creation of some new ones, has been underway since the 1980s. It is therefore difficult to identify ‘up and coming’ neighbourhoods because most central ones have now ‘up and come’.

The chief characteristic of the hottest occupier markets – for both living and working – is that they have ceased to be alternative and are becoming the norm. The creative tech industries of Old Street, Shoreditch and Farringdon are migrating south into city territory formerly dominated by banking and finance. Rents have equalised in the two districts although occupiers want very different types of space. Creative tech is still looking for the warehouse vibe rather than marbled foyers.

Outside of the expensive, central hotspots, the main opportunities for occupiers are now in good suburban town-like locations with excellent communication links and amenities. Places like Richmond in South West London are becoming alternatives for creative and even opportunistic occupiers, and not altogether undeserved. Some corporations – particularly under President Hollande’s regime – have avoided or deferred a Parisian location for this reason.

In residential property markets, developers are having to finish and fit out apartments to a high standard in order to sell – in Moscow they were previously more used to marketing ‘shell and core’ for buyers to fit out themselves.

Like most of our European cities, Moscow has its hipster neighbourhoods popular with young professionals who value the close proximity to lively parts of the city. But there are also areas where technological companies and start-ups have based themselves and are attracting young professionals who value a high standard of living, such as Barrio Salamanca, Chamberi and El Viso.

In Paris, occupier demand could increase substantially.

After the shock, occupier activity has improved even more nationally rather than internationally and declined significantly, although reports suggest it was a little better than expected in 2016 and demand appears to have stabilised. In owner-occupier markets, incumbents are sitting tight as prices have reduced 30% to 40% in local terms. Prices are once again being quoted and charged in rubles where they were commonly quoted in US dollars before.

In residential property markets, developers are having to finish and fit out apartments to high standards in order to sell – in Moscow they were previously more used to marketing ‘shell and core’ for buyers to fit out themselves. Like most of our European cities, Moscow has its hipster neighbourhoods popular with the millennial generation, which look set to coexist, but each mixed-use neighbourhood’s characteristics attract different profiles of people and companies.

In many world cities, high demand for living and working space has pushed real estate rents and capital values to record highs. With the exception of London, where many neighbourhoods look fully valued, European cities can appear to be good value on the world stage.
Property Costs in Europe

The real estate costs of a city have to be weighed against the productivity of that city for any organisation. Residential real estate may cost a company more overall than workspace.

It is tempting for real estate professionals to think that office property costs are a major factor in location decisions made by footloose multinational corporations. But they can pale into insignificance in the war for talent, as the need to attract and retain key staff in a particularly popular location takes precedence. Accommodation costs can also look insignificant against salary and other staff costs.

When thinking about the costs of accommodating a business in the city, most real estate managers will consider the headline office rent per square metre. Few consider that half as much again might be added on top of this by service charges and taxes. These costs constitute on average 22% of workspace costs across our European cities.

Even fewer property managers will consider the pressures that might be put on salary demands because of the cost of homes for their workforce. Residential accommodation per worker will cost, on average, nearly seven times the office accommodation. As the Human Resources departments of relocating corporations begin to hold more sway in location decisions, we expect more heed will be paid to this.

In order to give a more useful idea of accommodation costs in European cities, we have measured the rents, property-related taxes and service charges associated with the workspace needed for seven people as well as the rental cost of the homes they live in.

Real estate costs of a city have to be weighed against the productivity of that city for any organisation. Residential real estate may cost a company more overall than workspace.

These are the same seven people located in each city, so the data is comparable, and consist of one expat CEO, one expat director, one local director and four local administrative staff.

We have located this Savills Executive Unit (SEU) in two types of location in each city, one is the dominant ‘creative quarter’ of each city and the other is the type of office and location that might be occupied by a hedge fund.

This means that rents are not always the prime, grade A, financial sector headline rents usually quoted, but instead are typical of the sort of space that SMEs and international company branch offices might take, plus the relevant variety of residential areas their staff will occupy.

FIG. 8 Live/work accommodation costs

<table>
<thead>
<tr>
<th>Rank</th>
<th>City</th>
<th>Combined Rank</th>
<th>June 2016</th>
<th>December 2016</th>
<th>% Change H/H</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>London</td>
<td>€85,329</td>
<td>-10%</td>
<td>€72,178</td>
<td>-1%</td>
</tr>
<tr>
<td>2</td>
<td>Paris</td>
<td>€72,178</td>
<td>-1%</td>
<td>€48,844</td>
<td>2%</td>
</tr>
<tr>
<td>3</td>
<td>Milan</td>
<td>€48,844</td>
<td>2%</td>
<td>€45,218</td>
<td>6%</td>
</tr>
<tr>
<td>4</td>
<td>Dublin</td>
<td>€45,218</td>
<td>6%</td>
<td>€43,295</td>
<td>8%</td>
</tr>
<tr>
<td>5</td>
<td>Amsterdam</td>
<td>€43,295</td>
<td>8%</td>
<td>€42,957</td>
<td>9%</td>
</tr>
<tr>
<td>6</td>
<td>Moscow</td>
<td>€42,957</td>
<td>9%</td>
<td>€42,004</td>
<td>0%</td>
</tr>
<tr>
<td>7</td>
<td>Brussels</td>
<td>€42,004</td>
<td>0%</td>
<td>€41,099</td>
<td>0%</td>
</tr>
<tr>
<td>8</td>
<td>Stockholm</td>
<td>€41,099</td>
<td>0%</td>
<td>€34,275</td>
<td>0%</td>
</tr>
<tr>
<td>9</td>
<td>Madrid</td>
<td>€34,275</td>
<td>0%</td>
<td>€31,488</td>
<td>4%</td>
</tr>
<tr>
<td>10</td>
<td>Frankfurt</td>
<td>€31,488</td>
<td>4%</td>
<td>€29,748</td>
<td>2%</td>
</tr>
<tr>
<td>11</td>
<td>Berlin</td>
<td>€29,748</td>
<td>2%</td>
<td>€27,456</td>
<td>0%</td>
</tr>
<tr>
<td>12</td>
<td>Warsaw</td>
<td>€27,456</td>
<td>0%</td>
<td>€22,204</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Oxford Economics, Savills World Research
In all our cities, rents paid for offices in the financial district are always higher than those paid in the creative quarter. This reflects the dominance of financial services in these city economies in recent years and the rents being paid reflect the profitability and growth of that sector.

In many cities, creative and tech industries are growing faster than the traditional financial services sector. This raises the question as to how useful most occupiers will find the much-quoted prime Grade A rent per square metre figures beloved by realtors.

Not all of today’s tenants need prestigious towers to house their operations and an increasing number are actively seeking to attract human talent in good neighbourhoods rather than display wealth on the skyline. Sometimes a stripped-back industrial building will be more desirable to a tech or creative company, for example. These tastes and preferences will be increasingly reflected in rents and the notion of what makes a prime location and what constitutes high-grade spec will then change. Already in London, rents on the fringe of the city, favoured by tech, have equalised with the traditional financial sector rents of the City of London.

In most cities there is a divide opening up between the rents paid by small, specialist financial organisations and the corporate financial sector.
Occupier Futures

Occupiers in European cities are faced with a variety of different market conditions. Some cities, like London, Paris, Frankfurt and Stockholm are at or near the top of the rental cycle and are unlikely to see rising rents and may even continue to see small falls. Others are one or two years away from their peak. Moscow hasn’t yet seen the start of a conventional rental cycle because, although demand has been strong, the city has an unusually elastic supply pipeline for both offices and residential property. Moscow was hit by oil price hikes after 2014 and saw substantial rent falls so is nearing the start of a new rent cycle.

Figure 10 summarises the expected outlook for occupier rents in key European cities where forecasts have been made. Significantly, there are no predictions of substantial rent falls. This is highly reflective of the limited supply side in many European cities, particularly in or near the historic centre where demand is high but land for development and planning permits are scarce.

The overwhelming characteristic of all the cities is a strong desire among occupiers to be in a vibrant, active and mixed-use city centre, not only for both living and working but for playing and visiting as well. This has huge implications for all our cities which will change the urban form as well as property markets. We have noticed that workspace rents have started to equalise between traditional financial office space and less conventional urban workspace in alternative, but still central, locations. We expect this to continue.

We foresee that there will be an increasing need for investors and developers to repurpose outdated and outmoded office campuses into mixed-use, new ‘urban villages’ in order to satisfy occupier demands in the 21st century. The willingness of investors and developers to create more genuinely city-like environments will be more and more important for corporate occupiers as they compete for human capital. It is the cities themselves that will be attracting young, skilled and valuable global workforces in future, much more than the organisations within them. Corporate occupiers will add value to their business interests by locating in these successful cities but risk devaluing their enterprises by picking the wrong ones.

“Workers don’t want remote, single-use, out-of-town business parks and campus offices. The decision to locate in such environments in future will be made on the basis of cost alone rather than workforce quality”
There is a group of European cities much smaller than the global giants which nevertheless have a reputation and kudos which belies their size. Some sectors of their economies are growing at phenomenal rates as they manage to attract global talent to their exceptional urban environments and cutting edge creative sectors. Companies looking for highly cost effective employee workspace and a high quality workforce are increasingly attracted to them. Berlin, Stockholm and Dublin all have well known and fast growing information and communication sectors which are often at the forefront of new technology and which are rivaling London and Paris when it comes to attracting the best tech talent.

Meanwhile Milan, along with Stockholm, has a fast-growing finance and insurance sector servicing local industries including the world renowned fashion and design industries of the city. Important in this growth has been the quality of the urban environment and the quality of life these cities offer. The Mercer Quality of Living rankings of 230 world cities measures a wide range of social, economic and environmental factors, including crime, pollution and congestion as well as culture health and housing to assess how easy life is for expat workers. Most of our European cities rank in the top quartile but the Urban Creator cities stand out above the larger cities.

A young workforce is also a feature of the ‘Urban Creator’ cities. Both Dublin and Stockholm stand out for their demographic strength while Berlin and Milan buck the trend of the very much weaker underlying demographics of the countries in which they sit. The faster-growing and younger populations of these cities are often there by virtue of the quality of education they offer as well as the nightlife, social advantages and other cultural attractions of the city.

### The Urban Accelerators

Berlin, Dublin, Stockholm and Milan – mid-size but heavyweight attractors of talent

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**Fig. 12 Cost of living and working**

<table>
<thead>
<tr>
<th>Rank Dec-16</th>
<th>City</th>
<th>Annual residential cost per employee</th>
<th>Annual workspace cost per employee</th>
<th>Annual combined cost per employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>3</td>
<td>MILAN</td>
<td>€36,746</td>
<td>€12,098</td>
<td>€48,844</td>
</tr>
<tr>
<td>4</td>
<td>DUBLIN</td>
<td>€39,201</td>
<td>€6,601</td>
<td>€45,218</td>
</tr>
<tr>
<td>8</td>
<td>STOCKHOLM</td>
<td>€24,463</td>
<td>€9,812</td>
<td>€34,275</td>
</tr>
<tr>
<td>11</td>
<td>BERLIN</td>
<td>€19,145</td>
<td>€8,311</td>
<td>€27,456</td>
</tr>
</tbody>
</table>

**Fig. 13 Economic growth**

<table>
<thead>
<tr>
<th>City</th>
<th>Size of city economy (GDP)</th>
<th>Information &amp; Communication</th>
<th>Finance &amp; Insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>10-yr GVA growth</td>
<td>Proportion of economy</td>
<td>10-yr growth</td>
</tr>
<tr>
<td>BERLIN</td>
<td>€103,317</td>
<td>60%</td>
<td>-7%</td>
</tr>
<tr>
<td>DUBLIN</td>
<td>€114,478</td>
<td>239%</td>
<td>5%</td>
</tr>
<tr>
<td>MILAN</td>
<td>€139,064</td>
<td>13%</td>
<td>52%</td>
</tr>
<tr>
<td>STOCKHOLM</td>
<td>€119,581</td>
<td>70%</td>
<td>42%</td>
</tr>
</tbody>
</table>

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**Fig. 14 Mercer World Quality of Living Ranking (of 230 cities)**

- Berlin #13
- Stockholm #19
- Dublin #31
- Milan #41

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Source: Savills World Research
THE COSTS

Milan stands out as the costliest among the Urban Accelerators, especially for workspace rents. Dublin is next largely due to the cost of residential rents which constitute over 90% of total accommodation costs. In this city, employers are most likely to feel accommodation cost pressures in the form of wage demands or housing allowances.

Low cost accommodation is a strong competitive factor among the urban accelerator cities. Stockholm has the highest ratio of workspace to residential costs after Berlin but its overall costs of accommodation are around the median for European cities overall. Its higher than average office rent levels are offset by cheaper property taxes and service charges. Berlin does not have the lowest office rent costs per worker but, thanks to its cheap housing, has the lowest accommodation cost per worker overall, narrowly beating Warsaw.

Milan’s reputation is the design and fashion vortex of Europe, which means it has also grown a serious finance and business servicing sector alongside these glamorous industries. Nearly 100,000 of Milan’s 1.9 million jobs are in finance and business services. Host to Expo 2015, Milan is a top world centre of design and fashion. Four weeks a year are dedicated to shows and fashion events.

“The design and fashion vortex for Europe, Milan also has also grown a serious finance and business servicing sector”

5% of Milan’s nearly 1.9m jobs are in finance and business services

Source: Savills World Research
Neighbourhoods to watch in the Urban Accelerator cities

In the urban accelerator cities, new neighbourhoods for living and working can become popular very quickly. For those wanting to get ahead of the competition, we think these areas are worth a look.

**MILAN**

The aching hip Isola-Garibaldi district of Milan, on the north side of the city is an island with a recent industrial past but is also characterised by a strong craft tradition and a history of commercial activity as well as widespread residential use.

The neighbourhood forms the border between Milan’s downtown and the suburbs both physically and figuratively. It has a mixed-use “character” and the social backgrounds of its inhabitants are diverse. The area has been undergoing regeneration and a slow process of transformation since the 1950s but today it is the neighbourhood of choice for creative, designer, financial and tech occupiers. It is indeed one of the top city hotspots.

The area around the central train station is not usually the best one within cities but in recent years, Milan’s has been the object of diverse and wide regeneration. Developments have ranged from leisure to residential and co-working offices. The station is in the city centre and is the second biggest in Italy for both size and working offices. The station is in the city centre and is the second biggest in Italy for both size and working offices.

**BERLIN**

Like most high profile world cities, the demand for living and working space in Berlin is for the urban central, not single-use, less dense outlying suburbs.

The central districts of Berlin, which form its CBD and tech district are becoming very crowded as both residential and workspace occupiers have colonised once near derelict streets. Office vacancy rates are at an all time low and residential vacancies are under 1%, making space difficult to find and pushing rents as high as €18 per square metre per month in the hottest district of Kreuzberg.

Those seeking more space and cheaper rents are heading south toward Tempelhof. Those wanting large floorspace will be catered for by the large amounts of development land here but will have to wait some years for completion. Other alternatives are Tiergarten, where there is a strong development pipeline and the attraction of excellent transport links through the main train station, but even here, tenants will have to wait until 2020/21 for completion.

Smaller, footloose start-ups and scale-ups will find space in Mitte and Friedrichshain, but this will largely be in serviced offices and shared space rather than independent setups. Any central or near-central urban space, residential or commercial, looks set to be in high demand in Berlin for the foreseeable future.

**STOCKHOLM**

Stockholm’s finance sector is vying with tech to show the highest growth and both are booming so pressure on workspace and rents is growing. There is a trend now for banks to relocate to brand new offices in the northern suburbs but the tech talent wants to be in the CBD.

Young, high-quality human capital is difficult to accommodate as people want not only to work in the centre city but live and play there as well. Consequently, space is running out and rents are high. Most can only rent, not buy, and some have to move out to the suburbs. As in many European cities, there is a need to build more mixed-use, city neighbourhoods with good access to the centre. The future for occupiers in Stockholm will be in new development in regeneration projects.

**DUBLIN**

Dublin tells the same story as many of popular world cities which have found favour among a variety of occupiers over the last two decades.

Despite the significant economic setbacks seen after 2008, the city has been successful in attracting the European headquarters of multinational and American organisations, partly through favourable tax arrangements. Locations and expansions of tech and other firms and their legal, financial and administrative service functions has fuelled demand for workspace in Dublin’s CBD in the ‘Dublin 2’ district.

As in other cities, this office occupier demand has reduced vacancies in the traditional urban rather than out-of-town campuses. In Dublin, this means that demand spilled eastwards to the Dublin 4 district and so space is becoming scarce here too, so in recent months the more affordable Dublin 3 district to the north has become popular due not so much to its urban character as its high availability and flexible terms.

Those not wanting to compete in the city centre are now taking space in the southern suburbs of Dublin 18, which is mixed-use and favoured because staff can both live and work there.

Residential rents are of concern for employers in Dublin as they have risen rapidly and vacancy rates are only 1.5% in the private rented sector. Once again, another city is faced with the side effect of success – increasingly inaccessible and high cost housing.
The fortunes of the financial sector in Europe’s cities have varied greatly in the past ten years. Some have grown significantly, most have grown little and a few have increased very significantly.

A TOUGH ACT TO FOLLOW

The evidence is mounting that no single European city has everything that London has provided for financial sector occupiers in the past. Nowhere seems to have the magic combination of favourable taxation, labour laws and adequate office space alongside English language skills plus the variety of social and cultural attractions found in London. But this doesn’t mean that London could necessarily have continued to be a dominant world finance centre as it had in the past – even without Brexit.

The recent rise of the finance sector in centres like Moscow, Warsaw, Milan or Brussels point to a trend that was already in train. These cities have increasingly been acting as financial service hubs for a single country or particular localised sectors and their growth suggests that the dispersal of Europe’s financial industry had already begun.

Many financial companies were already offshoring, nearshoring or even reshoring some of their activities before June 2016. As a consequence, the small and specialised financial centre of Frankfurt is actually 2% smaller in GVA terms than it was 10 years ago and London’s growth in the last decade has been much slower than it was in the previous one.

London now employs more people in the information and communication sector than it does in finance and insurance, and the relative decline of traditional finance and investment organisations seems inevitable as tech and creative enterprises grow faster. The future of London’s financial sector seems more likely to lie in FinTech of various types than in traditional banking and investment.

The geographical dispersal of financial activity in Europe has been, and is likely to continue to be facilitated by technological innovation and it is no coincidence that some of the fastest growing finance sectors are found in strong tech cities like Stockholm and Amsterdam.

“The dispersal of Europe’s finance functions had already begun before the UK referendum vote”

**FIG. 16 Growth of GVA in finance and insurance sector**

<table>
<thead>
<tr>
<th>City</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warsaw</td>
<td>123%</td>
</tr>
<tr>
<td>Milan</td>
<td>52%</td>
</tr>
<tr>
<td>Amsterdam</td>
<td>31%</td>
</tr>
<tr>
<td>Stockholm</td>
<td>42%</td>
</tr>
<tr>
<td>London</td>
<td>12%</td>
</tr>
<tr>
<td>Paris</td>
<td>29%</td>
</tr>
<tr>
<td>Dublin</td>
<td>-2%</td>
</tr>
<tr>
<td>Brussels</td>
<td>-7%</td>
</tr>
<tr>
<td>Berlin</td>
<td>-22%</td>
</tr>
<tr>
<td>Madrid</td>
<td>-22%</td>
</tr>
</tbody>
</table>
IS THERE AN EXODUS FROM LONDON?
There has been a great deal of speculation in the media and business circles about how London will fare as a financial centre as Britain leaves the European Union. Many international companies, including banks, use London as their gateway city to Europe and there is now great uncertainty as to whether London will be able to give them continued access to European financial markets.

Currently, UK-based businesses regulated by UK authorities, are able to provide financial services anywhere in the EU and wider European Economic Area (EEA) because they have passporting rights. Any EU exit where the UK remained in or rejoined the EEA would see no impact on these rights but if the UK leaves the EU without retaining EEA membership, limited or no passporting could impair the ability of UK firms to provide services to the rest of the EEA.

As the UK is a significant provider of financial services there is a chance that some agreement may be reached but already, some international banks and other companies are looking at relocating at least some of their relevant operations elsewhere in Europe.

The issue of post-Brexit relocation is not just confined to big banks. Insurance companies too seem to have been making plans. Lloyd’s of London has said insurers will be forced to move part of their businesses from the City to the European Union if they can’t continue to access the single market. Big corporations and multinational companies with large internal financial operations can also find themselves with similar issues to banks and insurance companies.

WHERE WILL THEY GO?
There are enormous practical issues involved in moving just ten percent of London’s 400,000 or so financial sector employees to another European city. Frankfurt for example, only has 80,000 financial sector employees in total so even a decile of London’s industry would swamp it.

Few European cities have sufficient contiguous office space of ‘financial quality’ to accommodate significant numbers of staff quickly. If the 3,100 workers earmarked for relocation from London really were all to move at once to the same city, this would create instant demand for around 250,000 square metres of prime office space in 1,000 to 5,000 square metre lots – which is simply not currently available in most places. Figure 18 shows stock and availability in European cities.

It is unlikely that a single city will win out in the competition to become Europe’s next global financial centre. Instead, it seems likely that different financial organisations will choose different cities for a variety of different reasons.

It would take several years to see sufficient office development before a financial cluster of a similar scale to London could begin to be created. This means that, although first movers may gain an advantage given the limited stock of space, it will be some time before they are joined by others.

Prospective financial re-locators will not only want to choose their city on the grounds of business location but will also need to look at how ‘build-able’ a city is. Those with low levels of real estate investment will likely have a stickier supply pipeline, so Paris, Berlin, Madrid and Frankfurt look good prospects in this respect.

The need to construct purpose-built buildings might favour cities like Warsaw if it can attract development capital because of its large land supply closer to the centre. Also, cities like Amsterdam with more flexible and responsive planning policies could benefit from its flexible supply-side.

“Taking all the factors of quality, cost and supply into consideration, it is likely that a dispersal of financial functions across Europe will continue. It is unlikely we will see all functions so concentrated in one city again”

Figure 18: Accommodating Europe’s next global financial centre Office stock, construction and vacancy rates

![Figure 18: Accommodating Europe’s next global financial centre Office stock, construction and vacancy rates](image-url)
The chief characteristics of the smaller cities in this study is that their reputations exceed their size and each of them has considerable potential to grow economically and sometimes physically. Amsterdam and Brussels are the more expensive of the four cities in which to accommodate both living and working and most of this cost is in residential accommodation. This will tend to put indirect cost pressures on employers in the form of wage demands and the risks of staff relocating to cheaper European cities in which to work. Frankfurt, with its high quality of living and cheap housing costs looks attractive by comparison.

Warsaw, a very good example of this and enjoys a post-war and post-industrial legacy of ample future development land that many of the more land-constrained European cities would envy.

The city currently attracts a very high calibre and linguistically able workforce from the rest of Poland. They provide the workforce for a strong financial and business service industry which serves not just Poland but companies throughout the Eastern European region.

Warsaw has suffered in the past from the emigration of younger workers overseas, particularly to the UK but this has been offset to a large extent by in-migration from other parts of the country. In future, the likely repatriation of some of these émigrés will further strengthen Warsaw’s economy and potential for growth. The city has ceased to be a European city competing for jobs and businesses on the basis of costs alone and now stands out in the region as competing on the basis of quality.

The chief challenge for the city in ‘The Contenders’ group is demography. With the exception of Amsterdam, each score lower than the average European city on this indicator. Frankfurt scores extremely low as it is a very small city, beset by low forecast workforce growth, an absence of youthful employees and high elderly dependency ratio.

It could be argued that Frankfurt faces the choice of remaining a high quality, highly regarded specialist financial centre, affluent and with a high quality of life or else actively needs to reinvent and reinvigorate itself if it is to grow its economy significantly.

The same might be said of Brussels, which is characterised by its strength as host to the European Union with all the economic effects and benefits that provides. It is estimated that 15% of Brussels workforce is employed directly by the EU and another 15% in services associated with the EU. This amounts to a workforce of 3.4 million out of a total of 13 million.

Brussels as a city would be threatened by the demise or weakening of the EU but not defeated by it. The city also acts as a financial and business services centre for Belgian business and national Administration, in addition to the EU bureaucracy.

Amsterdam, we feel, is a strong contender to pick up some business from any Brexit fallout in London thanks to its attraction as a visitor city to which people would be happy to relocate.

The city's cultural and recreational attractions belie its small size, and alongside Paris, bear comparison to London. Its major obstacle to growth will be land availability, but sophisticated planning approaches and good public transport systems increase the likelihood that this can be overcome.

Source: Savills World Research, Oxford Economics
European Cities

Neighbourhoods to watch in the Contender cities

Amsterdam is flourishing, attracting more tourists and young talent moving to the city. Retail turnover is growing substantially and house prices are skyrocketing, so the municipality is doing everything it can to accelerate residential development.

Companies have also been attracted so increased office take-up has caused a substantial drop in vacancy rates to below 5% in the city centre and South Axis. In 2016, a large number of global companies put their headquarters in Amsterdam and new leases or expansions from Google, LinkedIn, Netflix and Snapchat make Amsterdam a premier destination for tech and media companies.

Amsterdam’s city centre has immense pulling power as vibrant city life is an enormous asset in the battle to attract talent and retain talent. Locations close to stores, bars, restaurants and public transport are winning and often valued over affordable city edge locations.

Amsterdam’s capability to build a popular, authentic city adds value and is something that many world cities could learn from.

The big story in Brussels over the last three years has been the number of offices that have been converted to residential use. We estimate that 1% of the total office stock is lost each year in this way – so vacancy rates are falling as a result.

Office occupier demand is robust in the city centre while at the same time there are strong taxation incentives for some companies to relocate to the periphery, for example near the airport. This means that offices are most likely to become vacant and available for conversion in an ‘inner ring’, accessible to metro stations and within easy reach of the centre. Demand for the reasonably priced apartments that can be built on such sites is high especially among young people, so these zones will tend to become increasingly residential.

Demand is also strong for serviced apartments, which cater to the short term accommodation needs of some workers and visitors to the EU in that sector and, at the high end French company owners needing residence in Belgium to avoid French capital gains tax. Accommodation in this sector can be hard to find because of restrictive planning.

Frankfurt is a small and highly specialised financial centre which benefits from the presence of the European Central Bank and other international financial institutions. It is threatened by the relative demise of traditional financial industries, but it has the opportunity to make a virtue of its specialism by embracing digital technology and becoming Europe’s capital of FinTech.

Frankfurt’s advantage when reinventing itself will be its high quality of living ranking plus relatively low real estate costs. It is particularly attractive to families looking for a compact, safe and liveable city with good schools. It may attract some European Tech companies to relocate to the periphery, for example near the airport.

Numerous developers are reacting to strong demand by securing themselves a place in the Frankfurt skyline. There are twenty new office and residential towers due to appear over the next five years. If Frankfurt can continue to reinvent itself as a great living and working environment at the cutting edge of specialist FinTech, it will continue to flourish as a European financial centre.

Warsaw is different to the other European cities in many respects. Its fast development has left other Eastern European rivals behind. No longer seen as just a cheap offshoring alternative for back room functions, Warsaw has become an attraction in its own right – a well-connected, thriving business-friendly city with a skilled workforce, deep labour market and high per head GDP. It offers low cost shared service centres for other European markets and also increased profitability, planned expansion and an educated workforce.

Office and overall accommodation costs are still considerably cheaper than its nearest rivals, so affordability is not an issue but it can offer the same quality of financial and business services. Warsaw is the fastest growing office market in Europe with five million sq m and one million sq m due to be added in the next five years. This helps make it a high growth and dynamic business employment city. Changing market conditions mean tenants have migrated from both outside and within the city in the past two years.

Most of its office stock is in buildings over 10 years old, some of which can be described as obsolete. There will be opportunities for refurbishment and reconfiguration in good locations. Infrastructure improvements like the underground extension, new ring roads and tram lines will open up new investment and development opportunities. Already the opening of a second metro line and new tram lines have improved districts such as Wola for example.

In cities which themselves are dynamic and growing, spotting the individual neighbourhoods within the city that will out-compete and grow most can be very difficult. All of the Contender cities have potential to grow significantly so the game is spotting the next most successful development. Given the way global cities are developing and looking at the neighbourhoods with the most successful economies, we think that the new schemes which combine a variety of property uses, size and types of building in an intense urban streetscape are likely to be more successful than single-use out-of-town type business campuses.

AMSTERDAM

BRUSSELS

FRANKFURT

WARSAW
Corporate Tax Costs in Europe

The variety of corporate, personal and social security costs in Europe will have a greater impact on organisations in different cities than real estate costs.

For organisations looking to locate in Europe or relocate personnel within Europe, factors other than real estate costs will be important. Uppermost in many managers minds will be taxation regimes as these will have a far greater impact on the bottom line than property.

International taxation is an extremely complex subject, the surface of which we can’t begin to scratch here, so we have looked very simply and simplistically at a few metrics which begin to illustrate how location decisions may be affected by these considerations.

We have looked at corporation tax rates in each of the 12 cities alongside employers social security contributions in order to give some idea of what a typical organisation might face from a business point of view. We have also looked at the top rates of personal income tax and employee social security to get an idea of how encouraged, or otherwise, a CEO might be to make a location decision both on their own behalf and with a view to how easy it might be to attract and retain staff in different tax regimes.

The table on page 37 highlights those jurisdictions where tax regimes look more expensive than the 12-city average (purple) and those which look cheaper (green). On this measure, Paris, Brussels and Milan may look less attractive to occupiers, while Warsaw, London and Dublin look attractive. In other cities, there may be a trade-off between corporate tax levels and personal tax levels but there is not a great variation from the European average.

Our local operatives report that, at the extremes, high taxation can act as a significant disincentive to companies and other occupiers and is actively considered by international companies seeking to expand or relocate. It is little surprise then that Milan’s Municipality is said to be considering the introduction of special tax zones in the city to make it more competitive.

---

**FIG. 26: Headline tax rates**

<table>
<thead>
<tr>
<th>City</th>
<th>Country</th>
<th>Corporate tax rate</th>
<th>Social security rate (paid by employer) highest rate</th>
<th>Total corporate tax as percentage of taxable profit for company where wage bill is equal to pre-tax profit</th>
<th>Key personal taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>PARIS</td>
<td>France</td>
<td>33.3%</td>
<td>43.4%</td>
<td>76.7%</td>
<td>49.0% 22.4%</td>
</tr>
<tr>
<td>BRUSSELS</td>
<td>Belgium</td>
<td>34.0%</td>
<td>32.5%</td>
<td>66.5%</td>
<td>50.0% 13.1%</td>
</tr>
<tr>
<td>MILAN</td>
<td>Italy</td>
<td>31.4%</td>
<td>30.0%</td>
<td>61.4%</td>
<td>43.0% 10.5%</td>
</tr>
<tr>
<td>MADRID</td>
<td>Spain</td>
<td>29.9%</td>
<td>29.9%</td>
<td>54.9%</td>
<td>45.0%  6.4%</td>
</tr>
<tr>
<td>STOCKHOLM</td>
<td>Sweden</td>
<td>22.0%</td>
<td>31.4%</td>
<td>53.4%</td>
<td>57.1%  7.0%</td>
</tr>
<tr>
<td>MOSCOW</td>
<td>Russia</td>
<td>20.0%</td>
<td>32.6%</td>
<td>52.6%</td>
<td>13.0%  0.0%</td>
</tr>
<tr>
<td>FRANKFURT</td>
<td>Germany</td>
<td>29.7%</td>
<td>19.3%</td>
<td>49.1%</td>
<td>45.0% 20.7%</td>
</tr>
<tr>
<td>BERLIN</td>
<td>Germany</td>
<td>29.7%</td>
<td>19.3%</td>
<td>49.1%</td>
<td>45.0% 20.7%</td>
</tr>
<tr>
<td>AMSTERDAM</td>
<td>Netherlands</td>
<td>25.0%</td>
<td>18.5%</td>
<td>43.5%</td>
<td>52.0% 28.2%</td>
</tr>
<tr>
<td>WARSAW</td>
<td>Poland</td>
<td>19.0%</td>
<td>20.6%</td>
<td>39.6%</td>
<td>32.0% 13.7%</td>
</tr>
<tr>
<td>LONDON</td>
<td>UK</td>
<td>20.0%</td>
<td>13.8%</td>
<td>33.8%</td>
<td>45.0% 12.0%</td>
</tr>
<tr>
<td>DUBLIN</td>
<td>Ireland</td>
<td>12.5%</td>
<td>10.8%</td>
<td>23.3%</td>
<td>48.0%  4.0%</td>
</tr>
<tr>
<td>EUROPEAN CITIES AVERAGE</td>
<td></td>
<td>25.1%</td>
<td>25.2%</td>
<td>50.3%</td>
<td>43.7%</td>
</tr>
</tbody>
</table>

Source: KPMG, Savills World Research.
And Europe’s next big financial city is...  

Which European city stands to gain London’s financial crown as Brexit looms?

London’s financial services sector will see some partial relocation but those parts that do relocate are unlikely to go to a single city in Europe. Rather, different banks and financial institutions will be dispersed, or disperse some of their functions, to several different European cities according to their need. Each of these cities will offer different attractions and strengths but none fully replicate what London has been offering for the last three decades or so. So which cities are likely to be top of the shopping list for Financial occupiers?

On this basis, we think the shortlist for alternative European financial cities are:

1. AMSTERDAM – due to its cultural offer and English language capabilities
2. DUBLIN – because of its corporate tax framework and English language
3. MADRID – as it is a global scale city with strong cultural attractions
4. FRANKFURT – as the financial services city for Europe’s biggest economy and the European Central Bank (ECB)
5. PARIS – due to its size and ranking

To help assess the suitability of these locations for financial companies, we have looked at three principal factors. First, the regulatory framework, tax treatment and ease of doing business in these jurisdictions, second, the prevalence of English speaking people, essential in global commerce and third, the cultural attractiveness of the city as a draw to the global banking elite.

By this measure, the smaller cities of Amsterdam and especially Dublin might be considered in a strong position, especially relative to Paris where corporate taxes are 50% more than the European city average and personal social security rates are also high. A reputation for lighter-touch government in areas of taxation, both corporate and personal, labour and business regulation is likely to count strongly in favour of a location with the banking and financial services sector.

Dublin’s ease of doing business – IMD Business legislation global ranking

5
Dublin is a credible contender for London’s financial crown
ENGLISH – THE LANGUAGE OF INTERNATIONAL COMMERCE
Although small, Dublin and Amsterdam would appear to be well-placed to attract financial service providers needing a strong pool of English language speakers and wanting to locate international staff to places where the international business language is commonly spoken. The capability of a local workforce to converse with other branches and financial centres around the world will be of significant importance.

CULTURAL ATTRACTION
This may seem a rather esoteric factor to have included in this assessment of locations for finance but we know it to have played a significant part in attracting top global personnel in the finance sector to London. The prospect of a family relocation to London from many other world cities is often greeted positively. The cultural draw of a city and its attraction to visitors is likely therefore to play a significant part in a location’s ability to attract key financial talent.

By this measure, Paris is the only city to come anywhere near London but Amsterdam and Madrid are also contenders on cultural interaction. Only Frankfurt looks very weak on this measure. Although Frankfurt does score high on quality of life measures being compact with high environmental quality.

NO DOMINANT EUROPEAN GLOBAL FINANCE ALTERNATIVE
It is notable that, looking at a combination of all these measures, and taking into account the size of its financial sector, London clearly stands out as the most attractive city for the financial sector.

If financial institutions have to consider at least partial relocation into European Union countries, we think that some surprisingly small cities, namely Amsterdam and Dublin may stand up as attractive and useful locations for financial services. This may mean that London continues to serve as a global finance centre but in partnership with a smaller European city for passporting functions.

FIG. 23  English speakers by country

Source: Savills World Research
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