



LONDON

THE WAY FORWARD

CBRE



INTRODUCTION

London is both Europe's pre-eminent business hub and its leading global financial centre. Over the past decade the city's many strengths have supported exceptionally rapid economic growth.

The EU referendum result creates a fresh set of challenges for the capital, some of which are still unclear. However, what is clear is that London's competitive advantages, built up over many years, and in particular its openness and ability to innovate, will continue to create growth over the next decade and beyond.



LONDON - MIND THE GAP

London is among the world's most successful cities and one of the few that is truly global - a position it has consolidated in recent years. In a European context, London's economy is unrivalled. It is around a third larger than those of Paris and Madrid and twice as large as Munich's.¹ By comparison, Dublin, Berlin and Frankfurt, are minor players.

Growth, at 3.7% per year over the past five years, is unmatched by any other European or North American city. This performance is reflected in London's ability to create jobs, where again it is the top major European city with average growth of 3% per year. (Central London is even higher at 3.5%.)

London's contribution to the UK economy is equally significant. It accounts for 13% of the UK's population but 23% of its GDP. These figures reflect London's productivity advantage with GVA per hour worked almost 30% above the UK average.²

The recent increases in population illustrate the city's dynamic nature. In 2015, 8.6 million people lived here, more than ever before. London is now Western Europe's most populous city.³

The pace of this demographic change has been quite remarkable. Following years of decline, London's population started to grow again in 1989, and since 2009 it has grown by an average of 111,000 per year. Relative to other European cities, only Stockholm's population (1.6% per year) has grown faster than London (1.5%) over the past decade.

London is becoming increasingly cosmopolitan. The percentage of London residents born overseas has risen from 15% (or 1.1 million) in 1971, to 22% (1.45 million) in 1991 to its current level of 38% (3.19 million).⁴

1. NUTS 3 regions, Oxford Economics
2. Sub-regional productivity: National Statistics, March 2016
3. Greater London is used as the basis for this comparison which is made with other comparable metropolitan areas.
4. London: The Global Powerhouse, Greater Authority February 2016



LONDON - A GLOBAL POWERHOUSE

London's position as a global powerhouse can be attributed to a range of factors including language, its spirit of openness, the diverse workforce, its regulated tax and legal system, the presence of top global universities, its position as a gateway into Europe and its leadership as an international financial centre. A number of studies rank London at, or close to, the top among global cities, with one recent study showing London overtaking New York as the undisputed leader.¹

Much of its economic success can be traced to the high concentration of knowledge-based industries. Cities whose economic strengths are based on such industries tend to grow faster than others and to demonstrate greater resilience to economic downturns.

Among London's main strengths is its ranking with New York as one of the world's two leading financial centres.² The UK insurance industry, with London at its centre, is the largest in Europe and second largest in the world. It also has a leading share in marine, energy and aviation insurance.³

Again, with New York, London is one of the two leading centres for international legal services. It is also a major international market for accounting and related services, and an increasingly developing international hub for technology, creative industries and science. Providing ecosystems that nurture growing clusters is one of London's key competitive advantages.

A major indicator of a city's competitiveness is its ranking as a location for foreign investment. In 2015, London was ranked the top metropolitan area globally on its number of projects.⁴ A recent investor survey suggests London's position as Europe's most attractive city seems secure with 57% of investors highlighting it as the top destination compared with 43% for Paris in second place.⁵

1. Global Cities Index, A.T. Kearney
2. The Global Financial Centres Index, September. The GFCI assigns a score to a financial centre based on a set of competitiveness factors derived from published sources and via a survey of respondents working in financial services and related activities.
3. UK Financial and Related Professional Services: Meeting the challenges and delivering opportunities, CityUK, 2016
4. Global Location Trends 2016 Annual Report, IBM
5. EY's Global Investment Monitor, 2016



LONDON - POWERED BY TECHNOLOGY

A recent benchmarking of how cities support digital entrepreneurship underlines the strength of London business environment as it was ranked the top European city for tech start-ups.¹ Meanwhile some 23% of investors believe London offers the best prospect of producing the next technology giant, compared with 29% for San Francisco and 10% for Berlin.² According to London & Partners, 44,000 people work in London's FinTech sector – making it larger than either New York City or San Francisco.

London's key strength is its people. According to Eurostat data, 69% of London's workforce over 21 years old has a tertiary education and 53% are graduates.³ This is significantly higher than any other European city. London's universities nurture this creative and scientific talent whilst also acting as research and development hubs.

London has four top 100 globally ranked universities – more than any other city.⁴ It has twice as many top ranked universities as Paris and Munich, the next highest ranked European cities, whilst the proximity of Oxford and Cambridge Universities to London helps develop strong synergies.

London's position as a global powerhouse owes much to its transport network. This is essentially the glue that binds the economy and connects London's dense employment clusters to the rest of the UK and to the rest of the world, and importantly connects these clusters with local talented workers. This network supports the potential to increase in residential and commercial locations: nearly 30% of all trips made within in London are commuter or business related.



LONDON - CONNECTED AND COSMOPOLITAN

As London's economy and population have grown the demands on the public transport network has risen. Between 2008/09 and 2014/15:

- London Underground usage has grown by 20%
- Bus passenger numbers have risen by 6%
- The new London Overground network recorded a 321% increase in journeys on a like-for-like basis
- Trips on National Rail services serving London rose by 35%¹

Despite these pressures, London's public transport network is highly regarded, (which might surprise some Londoners). According to Eurostat it received an 86% satisfaction rating, which compares favourably with many European cities including Munich and Paris, although it is lower than other cities such as Zurich and Vienna.² On a global ranking, London is rated in the top ten, this time behind Paris.³

Global connectivity is an important measure of a city's competitiveness. London has five airports operating direct flights to over 300 international destinations. Heathrow is Europe's busiest airport serving 75million passengers in 2015 travelling to 185 destinations. In comparison, Paris' Charles de Galle hosted 65m passengers and 319 destinations.⁴



LONDON - BUILDING ON ADVANTAGE

The full impact of the UK leaving the EU is uncertain; much will depend on the outcome of negotiations around a future trading relationship. Certainly, losing access to the Single Market and, in particular, the loss of passporting rights for financial services, represents a risk to the London economy.

However, there are reasons to suggest that London will continue to thrive outside of the EU. Over the past decade, London's economy has been the fastest growing of any major European city and the most successful at creating new jobs – very few of which were in financial services.

London's success is due mainly to its ability to adapt to new global trends and, outside of the EU and no longer subject to excessive regulation, it might be argued that London will be freer to adapt and to innovate.

Financial services might be affected by the loss of passporting, with some operations moving to other cities in the EU. However, the concentration of financial skills and experience, coupled with the expertise in professional services, is not easily replicated elsewhere: London will remain a global and national financial hub. Faced with a loss of access to certain EU markets, financial services firms will innovate and diversify to develop a leading share in other activities. As an example, London recently overtook Singapore as the second largest centre for Renminbi trading.

The diversity and scale of its economy gives London the resilience to offset changes in other sectors. This was evident when the creative and technology sectors fuelled economic growth as the country emerged from the last recession. London appears to be at the start of another major diversification of its economy. Earlier this year, the Francis Crick Institute opened its 1m sq ft biomedical research institute, which, when fully operational, will employ 1,250 scientists and 250 support staff.



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The London economy does face some limits on its ability to grow. Transport infrastructure, housing shortage and affordability are the most significant but these are not new. A potential risk concerns possible migration controls to be introduced following the EU referendum. Any restrictions on London's ability to recruit skilled workers from abroad would be a threat as the London economy relies on access to highly-skilled workers from across the world.

We expect the UK government to introduce more business friendly policies and to fast-track infrastructure projects. We believe that the recent announcement, confirming the expansion of Heathrow Airport with the addition of a third runway, will be the first of many. The new terminal will provide a welcome boost to London's air capacity and open up routes to key cities in fast growing emerging economies. We also anticipate confirmation of HS 2, Phase 1, the high speed rail link to Birmingham and of Crossrail 2.

The Mayor of London, Sadiq Khan, has an important role to play in navigating London through the Brexit uncertainty. In part this will be championing London and its businesses abroad, but it will also involve using his control over transport and housing to ensure these support rather than constrain economic growth.

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