European Commercial - Winter 2021/22

SPOTLIGHT
Savills Research

European Fintech Occupier Outlook 2022

● Talent ● Innovation ● Occupier Hotspots

What is happening in European fintech?

Fintech Overview

Fintech refers to new technology designed to improve and automate the delivery of financial services and is increasingly being adopted by consumers and businesses to best manage their financial operations. According to PwC, consumer banking is the sector most likely to be disrupted by fintech companies, largely driven by rapidly changing consumer needs. Over just the last three years, the proportion of European consumers which plan to use exclusively digital banking has increased from 49% to 62%.

Fintech companies are disrupting the financial services landscape by allowing consumers to pay for goods through interest-free instalments. Consumers are able to smooth out their bills, whilst retailers cover the cost of credit to entice shoppers to spend more online via their devices. Lenders subsequently charge a small transaction fee to the retailer for short term credit plus a fee to the consumer if the payment is not made within the allocated timeframe. Klarna report that this subsequently leads to a 44% increase in total online orders. Now, established banks are adapting their retail banking services, such as Apple and Goldman Sachs who are exploring a new feature to Apple Pay, called Apple Pay Later, where shoppers can spread payments over longer timeframes.

Green financing is also contributing to fintech growth across Europe. Green financing is structured finance which has been created to ensure a better environmental outcome and typical projects include renewable energy, pollution prevention, biodiversity conservation, circular economy initiatives and sustainable use of natural resources. The top three green bond issuers globally are the US, China and France, according to the World Economic Forum and the estimated value of green bonds globally will reach $2.4 trillion by 2023. Banks are working with other service providers to help companies achieve their ESG targets so if a company meets its sustainability targets, it may achieve lower interest rates on loans after two years to encourage companies to transition to net zero carbon.

Which European cities are most attractive to fintech occupiers?

Savills European Fintech Occupier Index ranks the most attractive European cities for fintech occupiers to locate, subject to four main criteria- demographics, talent & innovation, affordability & business environment and green finance. The study covers 16 occupier variables across 23 key cities within Savills European occupier network. The study covers Europe's major office markets; London, Berlin, Manchester, Barcelona, Dublin, Madrid, Paris, Stockholm, Warsaw, Amsterdam, Munich, Copenhagen, Milan, Budapest, Hamburg, Prague, Frankfurt, Bucharest, Brussels, Vienna, Lisbon, Lyon, Oslo, Athens. Given the rising importance of environmental and social factors impacting the financial services industry, this year, Savills has incorporated the Global Green Finance Index (GGFI), an additional criteria focussing on the level of maturity of green finance in each major city.

Table 1: Savills European Fintech Occupier Index Variables

Criteria	Occupier Variable	Weight
Demographics	Professional, science and tech employment 10Y forecast growth, (%)	20%
	Professional, science and tech employment current, (000s)	
	Professional, science and tech GVA 10Y forecast growth (%)	
	Professional, science and tech GVA current, (€m)	
	Working age population (16-64), (000s)	
Talent and Innovation	Patents granted 2020, national	45%
	Computer science degrees in Times Top 100 universities (no.)	
	FT 1000 fastest growing companies (no.)	
	Fintech VC investment, previous 5YR (€m)	
	Fintech companies by country (no.)	
	Online banking penetration rate 2018 (%)	
Affordability and Business Environment	Corporate tax rate (%)	27.5%
	Ease of doing business index	
	Total salary cost for employer (€)	
	House price to income ratio (€)	
	Prime office rent (€ per sq m)	
Green Finance	Global Green Finance Index Rank	7.5%

Source Savills, Oxford Economics, World Bank, European IPO, The Times, Eurostat, KPMG, Numbeo, Payscale, Glassdoor , Z/Yen

Savills European Fintech Occupier Index

Overall rankings

For the second year running, London tops the European Fintech rankings, Paris leapfrogs Berlin into 2nd position and Amsterdam jumps to 4th spot, as it leads the way on green financing in Europe. Dublin rises two spots to complete the top five. Madrid's talent availability and affordability positions the Spanish capital in sixth, Manchester's achieves seventh place due to the inward venture capital, alongside Stockholm which climbed one place to 8th following strong corporate funding. Hamburg debuts in ninth position, with Munich completing the top 10 due to strong levels of VC funding into the sector and established universities.

Top 5:

London: London has attracted over €18bn of fintech venture capital funding over the past five years, and is now home to several unicorn fintech including Prodigy Finance, Revolut, LendInvest, SumUp and Landbay. This has stemmed from London's position as an established banking hub, with a blend of finance/ tech with friendly regulatory environment. In addition, King's College, UCL and Imperial College London all rank in the Times University Guide's global top 100 universities and work closely to develop start-ups through accelerator schemes.

Paris: 2021 marked a record year of fintech venture capital investment to Paris, with October (financial software) Ledger, and Younited Credit observing recent funding. The quantum of fintech companies established and the provision of tech and professional employment maintain Paris' appeal. The French capital is also home to Station F, the world's largest startup campus with over 1,000 startups and 30 programs to enable entrepreneurs to grow their businesses.

Berlin: Germany has attracted more patents than any other European country in 2020, and Berlin remains central to the country's innovation. Berlin has attracted almost €5bn of venture capital funding into the fintech sector since 2016, second only to London. Fintech occupier activity includes Trade Republic signed for a combined 10,000 sq m since 2020, Taxfix committed to 5,000 sq m in 2021 and further activity of between 800-1000 sq m among fast growth companies. Rising living costs may provide a challenge to attracting talent, although office costs remain at a discount to Europe's other fintech hubs.

Amsterdam: Amsterdam jumps to 4th in 2021, thanks to its position as greenest global financial market, according to the Global Green Finance Index. The Netherlands has an attractive business environment and strong demographic growth in future years. Adyen and Mollie are recent examples of expanding fintechs in the Netherlands.

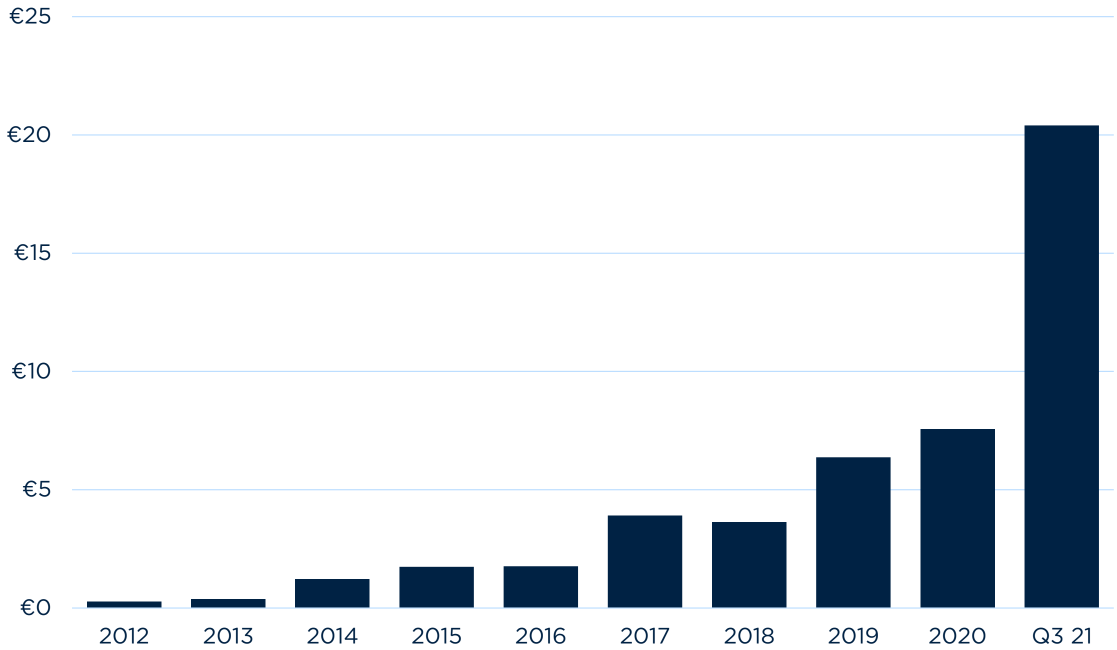
Dublin: Low corporate tax rates, rising VC investment and subsequent fintech clusters boosts Dublin into fifth spot in 2021. Calypso, Ion Group and Numis have expanded in recent months and with several large tech deals set for completion over the next few months, we expect Dublin to remain a growing fintech hotspot.

Table 2: Savills European Fintech Occupier Index 2021

City	Rank 2020	Rank 2021
London	1	1
Paris	3	2
Berlin	2	3
Amsterdam	10	4
Dublin	8	5
Madrid	6	6
Manchester	5	7
Stockholm	9	8
Hamburg	7	9
Munich	12	10

Benchmarking fintech hotspots

Chart 1: European Fintech VC Investment (€bn)



Source: Pitchbook

Demographics

Early stage fintech companies require a sufficient critical mass of financial services and tech clusters companies in close proximity in order to expand. London (770,000 jobs), Paris (579,000 jobs) and Madrid (289,000 jobs) employ the most workers and also report the highest economic output levels within this sector across Europe. However, Budapest (+2.4% pa), Lyon (+2.1% pa) and Stockholm (+1.6%) are forecast to see the strongest jobs growth within this sector over the next ten years. London, Paris, Madrid and Berlin also scored highly given their large working age populations.

Innovation and Talent

Universities have a pivotal role in nurturing fintech growth by both courses and providing accelerator environments for early-stage growth companies. According to the Times Higher Education, 35 of the world's top 100 computer science degrees are based in Europe's universities. The cities of London, Paris and Munich each accounted for three of the top ranked computer science courses, as fintech employers increasingly seeking workers with advanced programming and coding skills. However, access to experienced finance professionals with an established contact base is also essential for fintech growth.

Germany remains the innovation capital of Europe with over 25,000 patents granted during 2020, according to the European Patent Office (EPO). France (10,544 patents granted) and Netherlands (6,375 patents granted) boost the cities of Berlin, Munich, Frankfurt, Lyon, Paris and Amsterdam. Sweden ranked in the top five for patents granted, lifting Stockholm in the overall rankings.

Business Environment

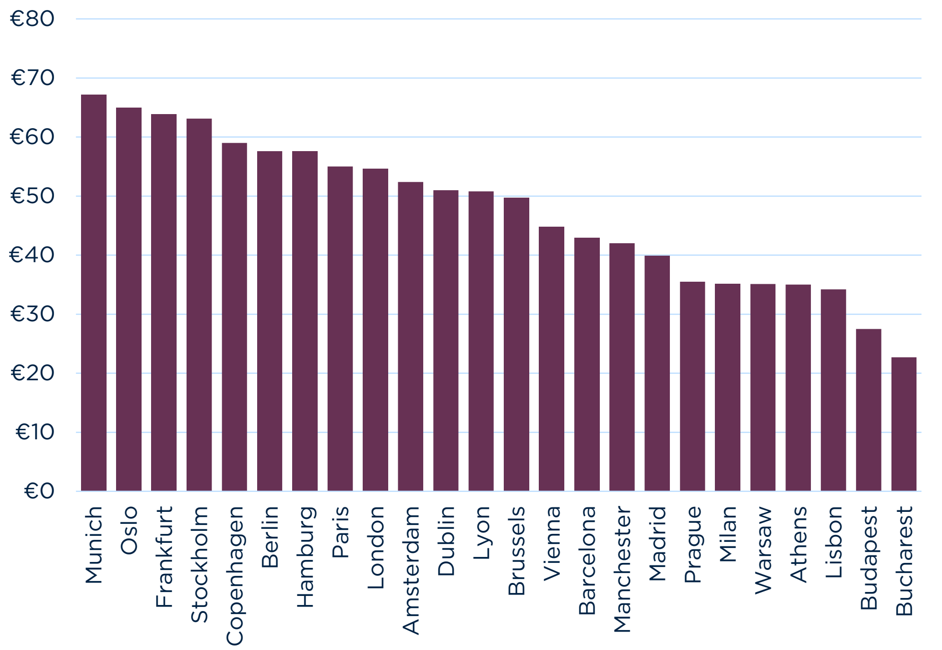
Early-stage fintechs require venture capital investment as the next step for expansion. European fintechs raised over €20bn of venture capital funding in 2021, almost three times the previous record of €7.5bn in 2020. We are also observing more later stage funding across more fintech companies, indicating a higher number of unicorn fintechs emerging.

However, London-headquartered fintech companies received over €18bn of venture capital investment over the past five years, far in excess of any other European city. Berlin (€4.8bn), Stockholm (€4.3bn), Paris (€2.5bn) all marked record years of investment in 2021 represented the most heavily invested European markets. We have also observed more cases of series B/C venture capital funding in recent weeks, as well as more of the fintech capital targeting insur-tech and reg-tech companies.

Existing fintech clusters, proximity to likeminded companies and industry networking events are essential in developing fintech growth, which is reflected in the number of fintech companies located in each country, according to data from Crunchbase. The UK leads the way in Europe with 454 fintech companies and appeared second on a global basis behind the US. Spain (100), Germany (90) and France (64) feature as countries with more established fintech companies. Fintech companies benefit from consumer bases with high proportions of online banking, which is led by the Nordic markets. Eurostat data indicates that Norway (93%), Denmark (89%), Netherlands (89%), Finland (89%) and Sweden (89%) have the highest online banking penetration rates across Europe. Northern European consumers have adopted online banking most actively, whereas rates are lower in Central Eastern European (CEE) and Southern European economies.

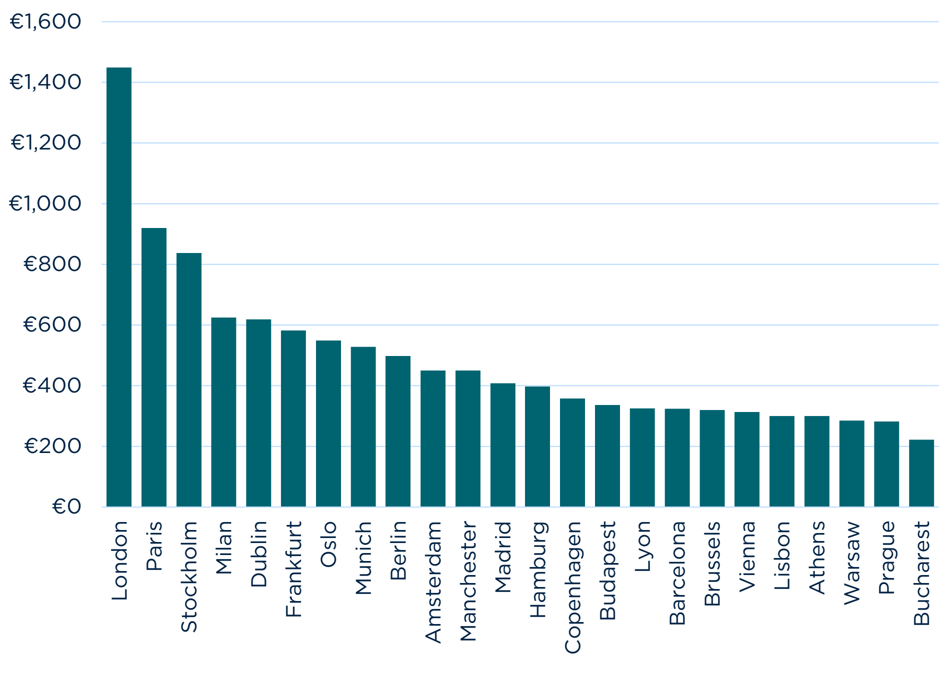
Top European fintech occupier hotspots

Chart 2: Average cost of employing a software developer by country (€000s)



Source: Glassdoor

Chart 3: European office rents (€ per sq m, as reported locally)



Source: Savills

Affordability

Corporate income tax rate is an influential factor for occupier expansion, and rates vary significantly across Europe. Ireland (12.5%) and Central Eastern European (CEE) countries (Hungary (9%), Romania (16%), Czech Republic (19%) Poland (19%)) offer the most attractive tax environments. The World Bank's Ease of Doing Business Index which covers indicators including ease of i) starting a business, ii) registering a property and iii) getting business credit, ranks Denmark, the UK, Norway and Sweden as the most business-friendly.

Fintech occupiers are concerned with attracting the best talent at cost effective prices, as employee costs account for approximately 55% of a business' total costs according to estimates from the BCO. The average total employee cost of a software engineer in Europe varies from €27,700 in Bucharest to €67,200 in Munich, according to data from Glassdoor and Payscale. However, on a global scale, Europe remains cost effective, as the average total cost of employing a software engineer in San Francisco and Seattle exceeds €100,000 per annum.

Alongside ability to secure higher wages, cost of living is a driving factor for fintech workers as real wage growth has slowed across the EU over the last 10 years and incomes become more stretched. According to data from Numbeo, European house price to income ratios are lowest in Brussels (6.1x), Manchester (7.6x), Copenhagen (8.4x), Dublin (9.5x) and Lyon (9.5x) which present fintech workers with attractive work-life balance choices. Paris (21x), Prague (18x) and Milan (18x) remain the most expensive cities to live in, relative to income levels.

Property costs account for approximately 10-15% of office occupiers' total business costs according to estimates from the BCO (British Council for Offices). At Q3 2021, London (€1,449 per sq m), Paris CBD (€920 per sq m) and Stockholm (€836 per sq m) represented the most expensive CBD prime office rents across Europe. Several CEE city prime rents offer a significant discount, including Bucharest (€222 per sq m), Prague (€282 per sq m) and Warsaw (€285 per sq m), which could create further demand for office space as companies opt to "east-shore" and increase access to talent pools.

€4.4bn

of venture capital investment has been raised for Stockholm fintech companies over the last five years.

3.5%

of Sweden's GDP is invested in R&D.

9,000 sq m

Klarna signed for in Sveavägen, Stockholm, and has been steadily increasing its footprint.

Case study: fintech in Stockholm

Maryrose David, Head of Research, Sweden, outlines how Stockholm has established itself as a fintech hotspot.

The fintech sector in Sweden is booming. Major banks in Sweden have invested heavily in fintech companies given a market with low interest rates and a lot of capital that must get invested. Therefore, there is a great deal of interest in fintech investments in Sweden, even when the pandemic hit in 2020.

Stockholm has attracted €4.4bn of venture capital funding in the fintech sector over the past five years, which includes Klarna's €1.07bn funding in 2021. Following Klarna's success, we have seen loan provider, Anyfin, payment application, Zettle, and financial software company, Lendify attract corporate funding in recent months.

Sweden is often referred to as "The Startup Capital of Europe". Stockholm is the second most prolific tech hub in the world on a per capita basis, behind Silicon Valley. The great numbers of new businesses have an impact on the economy, population growth and therefore, the fintech market. Also, there are a lot of clusters connected to the universities and business world, which provides to the number of startups. According to UC, the survival rate for Swedish startups have increased from 70% to 80% between 2004 and 2017 and remains on an upward trajectory.

Access to government support and the country's social stability support innovation across Sweden- the World Economic Forum ranks Sweden as one of the top ten most competitive countries in the world, with top grades for innovation capacity. In 2020, 3.5% of the country's GDP was invested in research and development – which is one of the highest rates in the world.

Sweden might soon become the first cashless society in the world, depending completely on mobile apps and cards to make transactions. According to the Riksbank, just one per cent of Sweden's GDP circulates as cash, and cash transactions make up barely 2% of the value of all payments made in Sweden. Swish, a popular mobile payment system used by more than 75% of the Swedish population, was launched in 2012 and developed jointly with the major banks in Sweden. The app allows anyone with a smartphone to transfer money from one bank account to another in real time. In October 2021, Swish was used to make more than 37 million private payments amounting to SEK 23 billion.

Sweden is therefore high on the list of most popular destinations in the world for workers in the fintech industry. According to a survey by Michael Page, more than one-fifth of all job candidates in fintech who are willing to reposition, choose Sweden as their preferred location to the likes of Klarna, Tink, Anyfin, Dreams, iZettle, Mitigram, Lendify and Trustly.

In Stockholm, fintechs tend to sit in central Stockholm, preferably in the CBD, and traditionally sign at low occupational densities, mostly since they have the need for large social areas in their offices. Often, this can be similar spaces to the ones that law firms once used to sit in, however their office space is less traditional and more social.

Fintech lease lengths tend to remain similar with other sectors, although fintech companies have had an impact on the prime rent in the CBD, as they are able to pay a higher rental level for the right location. Klarna's location on Sveavägen (CBD) was initially 9,000 sq m and has steady been increasing, and Trusly's location on Rådmansgatan (Inner City) for 3,100 sq m are just two examples of fintech expansion within the city.

"The survival rate for Swedish startups has increased from 70% to 80% between 2004 and 2017. The survival rate is constantly increasing," Maryrose David, Head of Sweden Research

The future fintech workplace

Surabhi Raman, Senior Managing Director, Workplace Group explores some of the latest workplace trends in the fintech sector.

Fintech employers will continue to seek ways to differentiate themselves through their real estate. Below are some of the emerging workplace trends we are observing in the fintech sector.

Early Adopters of Flexibility: 69% of employees experiencing burnout even though pandemic has forced most of them to work remote.

Wellbeing: 78% of millennials & Gen Z shall pick organizations based on their Corporate Social Responsibility.

Digital Equality: Connected seamless technologies to cut all geographic barriers, gender, age, race & more. Continued automation and digitization of workplace operations and technology including facial recognition, biometrics, sensors, arrival experience tools, workplace comfort will become more mainstream.

Flexibility: 70% of workers want to work in the office most of the time, creating a more agile workforce.

In the US, we are now seeing a lower proportion of space allocated to individual workstations from 150 sq ft to 130-140 sq ft per workstation. We are seeing circa 8-9 collaboration seats for every 10 workstations, resulting in 10% of space as dedicated offices and around 90% of total workspace as open plan. In London, Revolut has adopted flexible working and developed Rev Labs to dedicate 70% of their space to collaborative conversations, including brainstorming, training and knowledge transfer.

Employers are now focussing more on the wellness agenda to attract workers back to the workplace. 90% of workers currently feel that the workplace adversely affects their work. Air quality, water, nourishment, natural light, thermal comfort and community space will become essential factors in future office developments.

Savills Commercial Research
We provide bespoke services for landowners, developers, occupiers and investors across the lifecycle of residential, commercial or mixed-use projects. We add value by providing our clients with research-backed advice and consultancy through our market-leading global research team.

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