Office Sector
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EMEA

Cities of Influence

Where to find the best talent

Introduction

In order to provide an objective analysis of the attractiveness of major European office markets, Colliers has produced its inaugural European 'Cities of Influence' report. The study comprises a highly detailed analysis of a wide range of factors impacting the attractiveness and magnetism of twenty major European economic hubs.

These factors have been categorised into four areas, which combined, provides each city with a total score out of 500:

1. The size/orientation of economic output and the workforce;
2. The size/skills of the latent and emerging talent pool;
3. The cost and affordability of the city - as a place to live and save, and in terms of the cost of labour/ total cost of office occupation; (see Fig. 4)
4. The country risk associated with the market, and the inherent risk/ challenges presented by labour laws. (see Fig. 5)

Given the political uncertainty surrounding Europe, and challenges in finding and sourcing talent, higher weightings are given to the country risk and labour market factors. The final results are presented in Figure 1: Total City Score.

Fig. 1: Total City Score [Points]

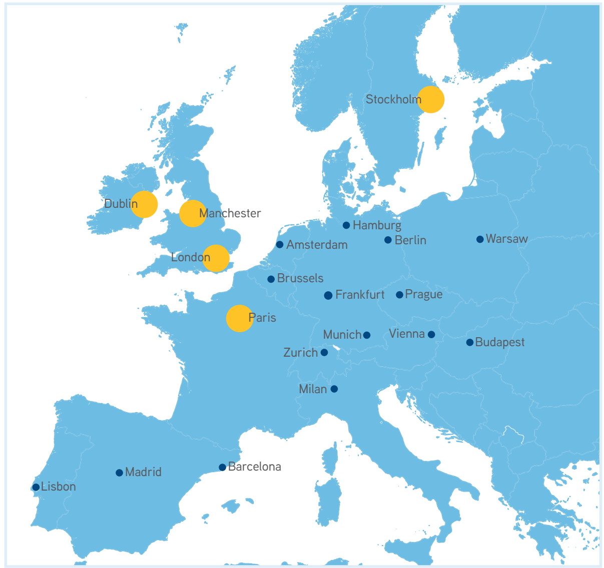
Source: Colliers International

A Tale of Two Cities?

The outcome of our analysis places London at the top of the rankings, pipping Paris for the top spot. Throughout the four stages of the analysis, London and Paris hold the top two spots, primarily as a result of their size. Paris is the leading market when it comes to economic output/orientation, future skills and capacity and affordability/cost. Paris scores particularly strongly when it comes to the size/experience of the latent talent pool, driven by high levels of skilled, short-term unemployed talent.

Yet when it comes to the final results factoring in market risk, London takes the reins. With the recent announcement by the UK Prime Minister that the UK will be seeking a clean exit from the EU single market, there is clearly a lot of country risk impacting both the UK and France, and the European Union. When it comes to labour laws, however, the UK clearly tops France as a more flexible and favourable place to do business. A key factor limiting the ability of Paris to become Europe's pre-eminent financial centre, should the City of London banking industry need or choose to relocate jobs in the wake of a clean Brexit.

Fig. 2: Map Top 5 Markets



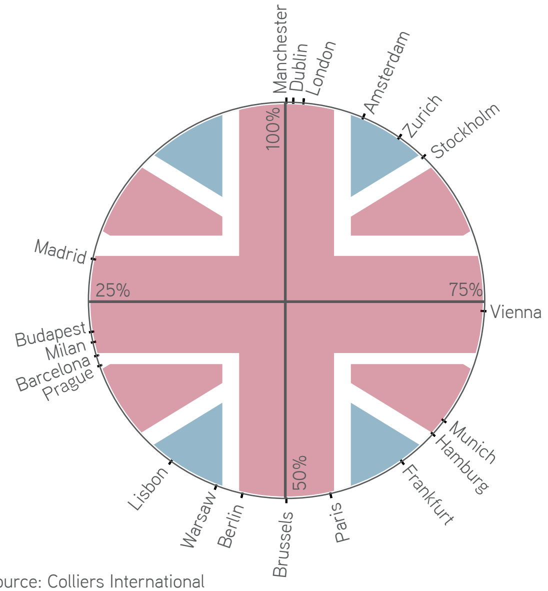
Source: Colliers International

The Top Five

Outside of the big two markets, Manchester, Stockholm and Dublin are the three cities which feature most highly at 3rd, 4th and 5th place, respectively. Interestingly, Manchester jumps up the rankings to get into 3rd spot having occupied 6th place until the country risk/labour market factors are accounted for. After the first stage: 'Output and Orientation', Manchester was as low as 17th, but the combination of high scores for its strong latent talent/future skills pool, high affordability and low cost combine to move the market up the rankings. Good news for the Northern Powerhouse policy makers.

Stockholm comes in at number four, as a steady strong performer throughout all sectors. The current orientation of the economy and the skills/experience of the inherent workforce put the market at the forefront when it comes to building a digitally sophisticated economy. Dublin also does very well, for very similar reasons. Strong English language skills and proficiency are also a clear advantage for these cities over other European locations, as are the more liberal, transparent labour markets in situ. Dublin actually has a higher English language proficiency ratio than multi-cultural London, second only to Manchester.

Fig. 3: English Language Proficiency



Source: Colliers International

The Mid-table Markets

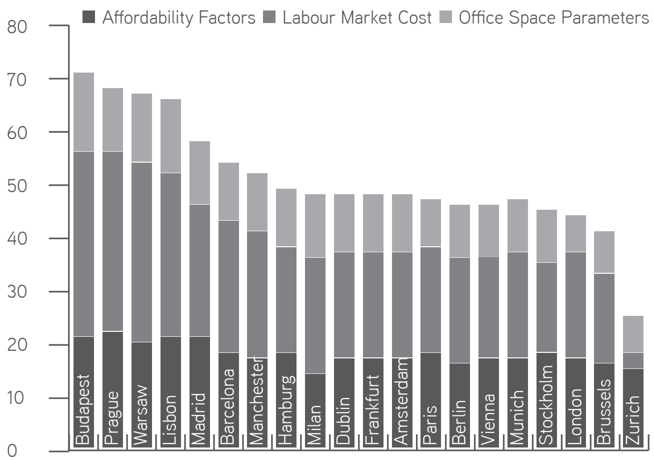
Outside of the top 5, there is only 20 points dividing Munich in 6th down to Lisbon in 17th. This is despite some significant differences in the cities filling these positions. A closer look at the various components provides the answers as to why some markets fare better than others, but some general factors also apply.

The Spanish markets of Madrid and Barcelona both have strong affordability/cost scores, and high latent talent pools, but suffer from a high country/labour market risk factor. This knocks Madrid from 3rd to 8th, and Barcelona from 7th to 16th.

The main German cities only hit the top five once, in the shape of Munich, but cost/affordability and future talent factors prevent it from staying in this position. Most surprising is the continual low score of Berlin, but an examination of the workforce/economic orientation of the city highlights an over-dependence on the public sector, despite all the positive growth surrounding the development of tech, media and telecoms operators in the city. The subsequent talent and affordability/cost factors are never enough to move it from this low-scoring start. Frankfurt suffers primarily from a lack of capacity, and being relatively expensive versus other European cities.

Fig. 4: Affordability & Cost Factors

A high score = low cost



Source: Colliers International

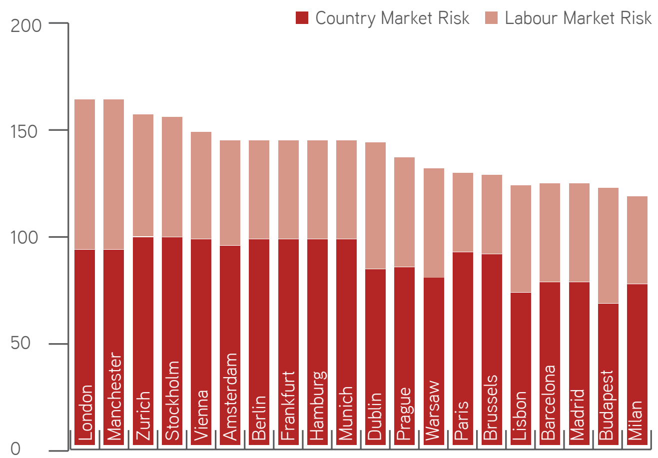
The Low-scoring Markets: Risk or Opportunity?

The bottom ranking markets feature Milan, Budapest and Brussels. Both Brussels and Milan are hindered by high relative costs, and high country market risk. Brussels (Belgium) has the weakest score of all countries from a labour market regulation perspective, and post the Italian referendum this position isn't much better for Milan.

The Budapest score is also hindered by high country risk, but limited economic output/market orientation and future skills/capacity also play a role. The latter factor tends to negatively impact all German and Central Eastern European cities, given their concerns over a declining workforce.

Despite having low scores in this broad analysis, some of the low scoring markets may be viewed as providing strong potential, particularly those which score strongly from a cost and affordability perspective. This is especially the case for the southern European markets of Madrid, Barcelona and Lisbon, and CEE markets of Warsaw, Prague and Budapest. It does beg the question, what price occupiers place on country/labour market risk.

Fig. 5: Risk Factors



Source: Colliers International

Concluding Points

As this brief analysis shows, each city has different strengths and weaknesses. Some occupiers will be more focused or interested in one component over another and thus the overall weightings and scores could change according to these preferences. For example, occupiers driven by cost may see the southern European and CEE markets as more attractive than their northern and western European counterparts. Occupiers focused on a digitally sophisticated workforce will be more tempted by Stockholm and Prague than Barcelona or Brussels.

That said, we feel this analysis provides a fair and robust analysis of the attractiveness of these cities to a broad range of financial, technical, professional and business-oriented service-sector clients, at this current point in time.

Looking forward, global property markets face some unprecedented changes from a political and economic perspective. Although we have incorporated forward-looking analysis into this study, the new manifestos of the US and UK governments are yet to be ratified. Thus the property market implications remain opaque. In addition, Europe needs to get through a series of elections - notably in the Netherlands, France and Germany. It will be interesting to measure the material impacts these changes will have on the major European 'Cities of Influence' analysed in this report.

Will France deregulate their labour laws, will the UK be stymied by a reduced influx of fresh talent, will Brussels and Berlin remain driven by public sector occupiers? All these factors will have a significant impact on the future, relative attractiveness of one location over another. This could result in some significant changes to the overall city rankings in the year ahead.

Methodological Notes:

A brief description of the factors considered in this analysis, within the four categories, are as follows. The first three categories have been given a total weighting of 100 each; and the risk factors a weighting of 200-100 for country risk, and a further 100 for labour market risk/inflexibility.

In terms of the first three categories high scores are driven by high outputs i.e. a bigger workforce/economy/talent pool equates to a higher score. For the affordability/cost and risk factors, the scores are inverted i.e. a low cost, low risk markets will generate a higher score.

If you would like to know more about this study, and how this analysis can be customised to help you make strategic, occupational decisions, please contact Guy Douetil or Damian Harrington.

Output & Orientation: Cities where the economy and workforce is significant in size, but also well-suited, or oriented, towards a modern, digital age.

Economic Output

Workforce Size & Composition

Economy/ Workforce Orientation

Future Skills & Capacity: Cities which have the latent capacity to grow or expand their occupier base, driven by both the size of latent, skilled talent pools and new fresh talent coming through universities.

Labour Capacity & Growth Prospects

Fresh Talent: Students & Unis

English Language Skills

Affordability & Cost: Cities where the cost of living is more affordable, there is a higher probability of being able to save, and where both the cost of labour and real estate is low.

City Affordability Factors

Labour Cost

Office Availability & Cost

Risk: Cities which sit within countries where country credit, trade, regulatory and political risk are manageable; and where regulations surrounding the flexibility of labour laws are favourable to occupiers.

Country Risk

Labour Market Flexibility

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