



MARKET TRACKER DECEMBER 2015

Fintechs and other start-ups: their significance to commercial real estate markets

In the European office space markets, banks and insurance companies traditionally account for approximately 25 % of the demand per annum. Their business models are currently being challenged by fast and innovative start-up companies – and this will have an impact on future demand for office space.

Demand for office space declining among traditional finance businesses – fintechs penetrating the market

The finance sector is currently undergoing a process of fundamental change. A comparison over time of the number of employees in this sector shows that, while there were 9 % more people working in the sector at the major European hubs in 2014 compared with the ten previous years, the demand for office space nonetheless fell by 17 %. This suggests that space is being used more efficiently. And now there is an additional market factor, with the emergence of fintechs. And it is doubtful as to whether this market factor can offset the emerging shortfall in demand.

The term ‘fintech’ is a portmanteau word combining ‘financial services’ and ‘technologies’, and represents a class of IT start-ups that are setting out to muscle in on the shares of the market held by traditional banks, insurance companies and financial service providers. The array of companies within this segment ranges from mobile or Web-based payment systems to account management and investment concepts and strategies (“robo advice”).

What they all have in common, however, is that they are doing away with physical service provision in favour of digitisation – the customer is increasingly becoming the producer of the services.

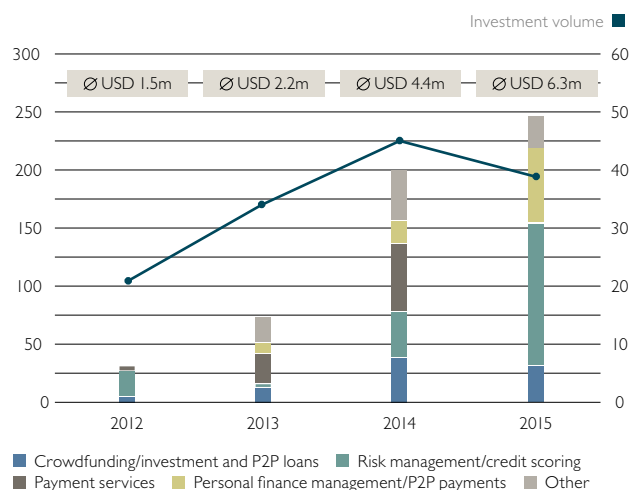
The ‘visible’ bank (service) at a location is increasingly becoming invisible. Concrete fintech services include:

- Banking: fast, individual and straightforward account management
- Insurance: customer-oriented insurance concepts
- Loans: granting private loans and providing apps to compare loans
- Payment transactions: new payment methods with low transaction costs and straightforward processing
- (Share) trading: new portfolio management concepts and optimisation of investment strategies

It is not currently clear what impact the emergence of fintechs will have on office space demand in the local real estate markets. Having said that, there does appear to be a fintech ‘DNA’ with regard to where they set up business. One thing which certainly is clear is that the investors have high expectations of the market. They are betting billions on their future success. There are now more than 12,000 fintech companies around the world. The majority are based in the UK, followed by the Scandinavian countries Sweden and Finland. The UK is a major market which is very tech-savvy. London’s financial centre is currently acting as a catalyst. The growth driver in the Scandinavian countries is a desire to be international.

FINTECH MARKET POPULAR AMONG INVESTORS

Investments in German fintech companies (in USD million, as at October 2015)



Source: statista

Catella is a leading financial advisor across Europe and asset manager for the areas of property, fixed-income and equity. We occupy a leading position in the real estate sector, with a strong local presence in Europe with around 500 employees across 12 countries.

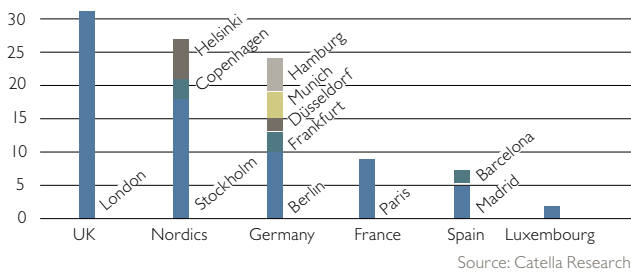
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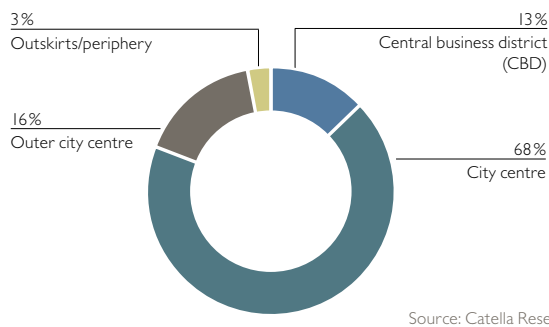


LOCATION OF EUROPEAN FINTECHS



Our analysis indicates that the vast majority of European start-ups prefer inner-city locations. These are often a city’s ‘in’ districts, which boast a high concentration of businesses, ease of access and a wealth of trained manpower.

LOCATION CATEGORIES OF EUROPEAN START-UPS



The number of fintech start-ups in Germany is growing fast. While there were around 40 fintech start-ups in Germany a year ago, this number had risen to around 250 by the beginning of November 2015. Approximately 40 % of these companies are based in Berlin.

Start-ups are increasingly being founded in particular in the areas of loans, private banking, investment and insurance. They focus on front-end products, user-friendly apps or online platforms that are able to meet the customers’ needs more quickly and more simply in a 24/7 environment than the solutions offered by traditional banks.

Compared with the USA, the European market for start-up companies is still relatively opaque. New user needs in the areas of co-working/shared working spaces, labs and smart production are still in the development stages.

Short-term commitment preferred

Long-term leases pose an inherent systems risk for start-ups: office space involving a long-term commitment can soon become too large or too small for such companies. Virtual offices in business centres (fintech campuses) are therefore ideal and are a great alternative to conventional office space rental: the overheads risk is reduced to a minimum and the outward appearance is representative of the company.

Although virtualisation is on the increase, physical customer accessibility is now more important than ever before. This is

just one of the reasons why we expect the trend of agglomeration to continue in the main European banking districts.

Our analysis has highlighted the following real estate-related effects and developments:

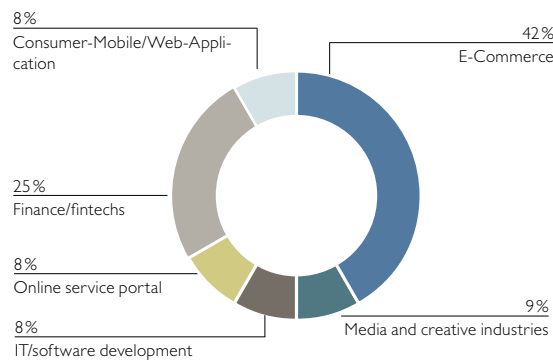
- Rising rent levels due to high demand for office space
- Short-term leases (1–3 years)
- Concentration in city centres – especially in central locations
- Flexible work models (co-working/shared working space)
- Modern workplace (with/without office furniture and equipment)
- Mergers and acquisitions of established start-ups by large corporations (level of demand for fintechs)

FINANCIAL SERVICES OCCUPANCY RATE IN EUROPE (IN 2014):

Locations	Occupancy rate of financial service companies in %	Occupancy rate of financial service companies in m²
Copenhagen	10.0	20,000
Berlin	10.0	64,500
Frankfurt	36.0	122,400
Düsseldorf	6.7	15,550
Munich	4.8	22,600
Hamburg	5.4	28,350
Madrid	13.3	38,050
Barcelona	6.0	12,150
Paris (IDF)	6.2	133,550
London (Central)	25.0	211,250
Luxembourg	29.0	50,750

Quelle: Catella Research

INDUSTRY COVERAGE OF EUROPE'S MOST VALUABLE START-UPS



Source: Catella Research

Fintechs only partially offsetting decline in demand

Fintechs will not replace the traditional financial service companies overnight. Nonetheless, they represent serious competition for the established market players – competition which is able to keep its customers satisfied with very high transparency and a comparatively high degree of service orientation. Catella Research expects to see demand for office space in the traditional banking sector in Europe fall by around 30 % between now and 2020, with approximately half of this drop potentially being offset by the new fintech segment. According to forecasts, the office space difference will then probably reappear in the market as residential space.