CHAPTER ONE

WHERE DOES THE WORLD WANT TO DO BUSINESS ?

As wealth shifts from West to East, global cities are fighting to retain and win new business. Only the strong will survive

THE BRIEFING

- London leads the latest Global Financial Centres Index, outperforming New York and Hong Kong.
- 70% of Fortune 500 companies have their European HQs in London.
- A shift in global wealth is changing the criteria for corporate locations.
- London faces challenges from smaller cities competing for a place on the world stage.

The business world is changing. Globally dominant cities, such as New York and London, are facing challenges as corporations respond to new economic and social trends. A shift of wealth from West to East and innovative communications technology are rewriting the criteria for corporate locations.

Currently, London is well placed to defend its position as a world leader. By most key measures, the city is a business powerhouse. London comes top of the latest Global Financial Centres Index, produced by the Z/Yen Group, and ranks second only to New York in the Xinhua-Dow Jones International Financial Centres Development Index 2011.

"It is arguably first and certainly one of the top two financial locations in the world," says Paul Bromelow of London & Partners, which connects international businesses to London.

London's traditional strength – its location at the heart of world time zones – has much to do with that. "The fact that it sits between the Americas and Asia-Pacific is hugely advantageous," says Piers Nickalls of Savills Corporate Real Estate Services. "For the first three hours of the day you can speak to Asia, and after lunch you can speak to America. That's why 70% of Fortune 500 companies have their European HQs here."

But, behind the headline figures, London is facing some significant challenges. When it comes to key secondary factors, such as innovation and quality of life, a number of smaller cities are beginning to position themselves as potential global players.

That much is clear from the Cities of Opportunity survey which was published by PwC's US office and the Partnership for New York City. It ranks 26 global cities based on criteria such as technology readiness, their intellectual capital, transport infrastructure and ease of doing business.

Unsurprisingly, London is top of the pile on economic clout. But when it comes to issues such as cost and liveability, other cities perform well. When all the criteria are taken into account, New York and four smaller cities – Toronto, Stockholm, San Francisco and Sydney – score higher.

Cities of Opportunity takes the view that these smaller challenger cities may not have it all if you're seeking to crown a heavyweight champion among world cities where size, a major capital market and a 24/7 buzz matter. "But," says the report, "they just may have what's needed for a world that is growing less reliant on geography and more dependent on attracting and nurturing good people to innovate and build the future with fresh eyes."

The idea poses an interesting choice for global corporations. In an increasingly connected world, why not locate to a less expensive, more technologically networked city that offers a better quality of life for you and your staff? And what can an established global city like London do about it?

For most experts, the key to success is to reduce the cost of doing business. "Local property tax in the West End is more than the total property costs of other cities," says Piers Nickalls. "West End business rates can reach over £40 per sq ft – the all-in property costs (rent, property taxes and service charges) of buildings in challenger cities are not even that."

COUNTDOWN
LIVING AND WORKING IN LONDON

12.5% OF BRITAIN'S POPULATION LIVES IN GREATER LONDON

85% OF LONDON'S WORKERS ARE EMPLOYED IN THE SERVICES SECTOR

The UK's complex tax regime is another target for criticism. "It's a disincentive to overseas investment and overseas people coming to the UK," argues Keith Mansfield, head of London for PwC in the UK – who points out that the UK has slipped from 6th to 18th in Paying Taxes 2012, a recent PwC/World Bank study ranking countries on the ease of paying taxes.

When it comes to other challenging factors, such as quality of life, the picture is not quite as simple as it might appear. Put simply, you might well be relaxed in Stockholm, but you will definitely be entertained in London. Tony Travers, who is the director of the LSE London research centre, points out that global cities, with their world-leading cultural life, are "potentially more rewarding" than smaller challengers. The unique feeling of being at the heart of a great city shouldn't be underestimated. It is a key tool for attracting and retaining highly skilled international staff.

London is also responding to the travel and technology offering of challenger cities.

Words: Chris Alden

Substantial infrastructure projects, such as the new Crossrail link across the city, are being matched by a booming technology sector based in east London.

The most recent addition is Yammer, a social networking platform, which recently opened its European office in fashionable Shoreditch. Further east, Siemens UK has created a showcase building for sustainable technology on the Royal Docks, which are currently being regenerated.

There's another crucial way in which bigger is definitely better – a diversified workforce. Smaller cities tend to be limited by specialisation, but not London. Its diversity, cultural openness and world-class university system make it a centre of intellectual capital.

"There are 230 different languages spoken in London," says Paul Bromelow. "There is no better city in the world for accessing staff who have the cultural sensibilities and language capabilities to do business internationally. In London, 30% of the workforce was born outside of the UK and 40% are degree-qualified."

Cashing in on the city's available intellectual capital and diversity will be all-important as London comes under increasing competition from Asia in its area of traditional strength – finance.

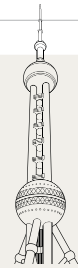
"Where does the world want to do business? They want to do business where they can make money," says Piers Nickalls – pointing out that Hong Kong and, to a certain extent, Singapore are becoming leaders in terms of new IPOs, attracting the likes of Prada and Samsonite. But he strongly believes that London's talent, location and reputation will secure its future at the heart of global business.

"It comes down to confidence," explains Nickalls. "Corporations want to be able to say: 'In London I will find the expertise that I need, so I can make an informed decision anywhere in the world.' That is the secret of a successful global city." ❖

GLOBAL GROWTH

Which cities will be the winners when it comes to long-term growth?

01. SHANGHAI



Population:
22.5 million
Area: 1,021 sq miles
Economic output: $139 billion
Predicted GDP growth to 2025: $692 billion
Percentage growth: 398%

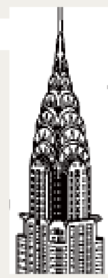
02. MUMBAI

Population:
20.5 million
Area: 233 sq miles
Economic output: $209 billion
Predicted GDP growth to 2025: $594 billion
Percentage growth: 184%

03. LONDON

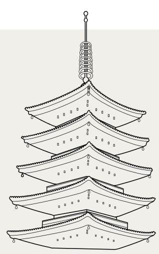
Population:
7.5 million
Area: 659 sq miles
Economic output: $452 billion
Predicted GDP growth to 2025: $821 billion
Percentage growth: 82%

04. NEW YORK



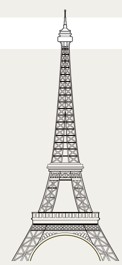
Population:
8.3 million
Area: 301 sq miles
Economic output: $1.1 trillion
Predicted GDP growth to 2025: $1,915 billion
Percentage growth: 74%

05. TOKYO



Population::
13 million
Area: 854 sq miles
Economic output: $1.2 trillion
Predicted GDP growth to 2025: $1,981 billion
Percentage growth: 65%

06. PARIS



Population:
6.6 million
Area: 880 sq miles
Economic output: $460 billion
Predicted GDP growth to 2025: $741 billion
Percentage growth: 61%

Compiled by Laura Latham Source: Atlantic Cities/PriceWaterhouseCoopers

NUMBER CRUNCHER

10 REASONS WHY LONDON IS A GLOBAL FINANCIAL LEADER

01

£4.1 TRILLION

The value of funds that are currently under financial management in the United Kingdom.

02

124,000

The number of people employed in the wholesale operations of foreign banks in the UK – 40,000 of whom have a foreign passport.

03

21%

The share that City institutions have of the global market in marine insurance, making Great Britain a world leader.

04

2.4%

The estimated contribution the City of London makes to the UK's national income.

05

$1.74 TRILLION

The daily value of the foreign exchange traded through London, accounting for 33% of all global foreign exchange trading.

22

The number of banks in the City supplying Islamic financial services, five of which are Sharia compliant, making the Square Mile the leading Western centre for Islamic finance.

604

The total foreign companies listed on the London Stock Exchange. There are also 241 foreign banks in London – more than in any other country.

£35.7 BILLION

The trade surplus that is currently generated by the UK financial services sector.

1.293 BILLION

The number of contracts traded in a year on London's International Financial Futures Exchange.

315,000

The number of people who are employed by London's financial services industry.

Compiled by Laura Latham Sources: Investment Management Association, Bank for International Settlements, TheCityUK, Office for National Statistics and Oxford Economics, NYSE Liffe, ONS Business Register and Employment Survey

WHY ASIA'S RISE WILL MAKE NOT BREAK LONDON

There's a global seismic shift of economic power taking place. "In 2000, the 10 largest economies in the world were still dominated by G7 countries," says Chris Cummings, CEO of TheCityUK. "But by 2010 China had moved up to second place." By 2020, China and India are expected to be the first and third largest world economies.

Economic growth is being accompanied by the rapid expansion of Asian financial markets. So will the arrival of these Eastern dragons sap London's commercial and financial lifeblood? There are some legitimate concerns about future increases in UK financial regulation. But the fact is that Asian globalisation should pay dividends for London.

"Inward investment will flow to London because it's the world's leading commercial hub and is well placed for doing business with both the US and Europe," explains Simon Hope of Savills Capital Markets.

Asian banks are already increasing their presence in the capital. At the same time, Asia's emerging middle class represents massive potential markets for Western products and brands, including London's financial services. ❖

FIVE REASONS TO BE CHEERFUL

1. FOREIGN EXCHANGE

Growth in international trade means there is increased demand for foreign exchange markets. In April 2010, Forex trading in all emerging markets was circa $109 billion a day, while a total of $1,700 billion a day passed through the capital. London is also likely to become the world's centre for trading the Chinese Yuan outside of China/Hong Kong.

2. INTERNATIONAL FINANCE

"Emerging economies draw heavily on advanced economies for lending to finance infrastructure and major projects," says Chris Cummings. For instance, China has around $350 billion of outstanding international loans, while India has around $265 billion. London dominates the stage, with a 19% share of global lending to emerging economies.

3. INWARD INVESTMENT

As Asian enterprises expand more extensively into western markets, they will require an international base. London's reputation as a well-regulated, transparent, English-speaking centre with a wealth of sophisticated financial services will stand it in very good stead as the international location of choice for shrewd investors.

4. THE EMERGING MIDDLE CLASS

By 2030, China will have 1.4 billion middle-class consumers, according to Forbes.com. The middle classes love to travel, with London a key destination. In 2010, Chinese shoppers spent over £350 million in the UK. So it's not surprising Chinese retailer Bosideng has acquired a site at the corner of Oxford Street for its new flagship store.

5. REAL ESTATE ATTRACTIONS

"2011 saw a continuation of the trend for Asian investors to buy high-profile London office buildings," says Mat Oakley of Savills Commercial Research. "Asia Pacific buyers accounted for 17% of London office investment purchases – the bulk (£1.5 billion) in the City of London. That proportion is set to rise with growing Asian wealth."

Words: Faith Glasgow

SAVILLS

ADMIRALTY ARCH
Savills Hotels has been instructed by the Government to market this landmark hotel opportunity.

A BUSINESS OPPORTUNITY

Stephen Down of Savills Central London Markets reveals the key future trends

Savills is at the heart of London property. Every day we talk to investors, developers and tenants, giving us a unique insight into the current state of the market.

We continue to see a wealth of activity in central London. Residential markets in many areas have risen well ahead of their 2007 values. In the commercial sector there is a tight supply of office space in both the City and the West End, and we still have occupier demand. As a result, rental growth over the past 18 months has been significantly ahead of many competitor markets. What's more, retailer demand for London's best shopping streets is stronger than ever.

There is no question that the resilience of the market is due to international investor and occupier interest. We have a high proportion of overseas money contributing to total investment turnover. Alongside this influx of investment, London has seen the arrival of more international tenants keen to expand into London occupier markets.

Stephen Down of Savills

So what about the future? Savills commissioned a major piece of research from Oxford Economics looking at how the capital is set to perform in the aftermath of the global banking crisis and subsequent recession. The research identified a "virtuous circle" at the heart of London's business and property life. This refers to the capital's ability to attract new business, which in turn attracts new labour and skills. It's a wealth-creating process that is supported by sensible regulatory and tax regimes, free and open markets, as well as a location that allows for easy communication across time zones.

After weighing up all the factors, Oxford Economics forecasted that London would recover more quickly from the financial crisis than any other global centre.

Of course, uncertainties remain. There are question marks over how the Government will react to pressure for tighter regulatory control over the financial sector, not to mention the longer-term impact of the financial crisis that is rumbling across Europe. But London has a rich history of reinventing itself and grasping new opportunities. We have already seen growth in the capital's key property sectors and fully expect that growth to gather pace in the future. ❖