

FRANKFURT

As a Financial Centre

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Shadows over a symbol of stability

James Wilson considers the outlook for Germany's financial capital and its role at the heart of the eurozone

A giant euro symbol greets visitors to Frankfurt Airport, and another stands in the city centre: Germany's financial capital is undoubtedly proud of its role at the heart of European financial integration.

But the way the turmoil of the past two years has developed into a European sovereign debt crisis is proving to be the stiffest test yet of that integration.

Investors' doubts about the struggling economies and rising deficits of countries including Greece and Spain are not simply a test for these so-called "peripheral" eurozone member states; they are a challenge to Frankfurt.

There is still only a slim chance that the eurozone will unwind, but confidence in its stability has been undermined, as Frankfurt has been forced to acknowledge. As home of the European Central Bank and other institutions that both support and depend upon integration – not to mention being a significant beneficiary of a deeper, more liquid European capital market – the city, and Germany as a whole, would have a lot to lose if the crisis were to escalate.

As a new report from Initiative Finanzstandort Deutschland, a group that promotes Germany's financial sector, puts it: "The success and internationalisation of Germany's financial sector is today inseparable from the question of the long-term stability of the euro.

"If faith in the euro is lost worldwide, the prospects for the financial sector will also darken."

Europe's sovereign debt crisis is the longer of two shadows to have fallen over the city in the past few months. The other has been cast by German policymakers themselves.

Their frustration with financial markets' sceptical judgments of the eurozone – and perhaps also with the slow pace of regulatory reform following the financial crisis – have led them to impose bans on certain activities such as some kinds of short selling of stocks and bonds.

The unilateral actions pleased politicians in Berlin, keen to see the punishment of what they see as "speculation". They have been widely condemned in Frankfurt, even though some market participants have shown some sympathy with the aim of regulating short selling.

"This whole intervention is unhelpful, badly thought through and not good for Germany's reputation as a financial centre," says a lawyer in Frankfurt. René Parmentier, chief executive of Close Brothers Seydler Bank, a mid-cap adviser, says the curbs are counter-productive. "In a world like this you have to team up globally. It is not that it affects our clients, but that it sends the wrong signal about Germany," he says.

Germany still hopes to secure international support for other ideas to rein in banks and make the financial system more stable. It plans a levy on banks to help pay for the costs of winding down failing institutions in any future crisis. The government is also mooting a transaction tax – something very difficult to implement unless there is international agreement, since business will shift to other jurisdictions.

With many difficult negotiations ahead to agree on an international response to the crisis, it remains to be seen whether these government inter-



Red sky in the morning? Confidence in the eurozone has been undermined and Frankfurt, home to the European Central Bank, and Germany as a whole would have a lot to lose if the crisis worsened

Reuters

ventions will hamper Germany or form the basis of a level playing field for the future.

Until the sovereign debt crisis developed, Frankfurt had seemed to be weathering the financial crisis comparatively well. True, German banks were among the worst hit in Europe, while other levels of market activity also fell substantially.

But Swiss wealth managers and London traders and hedge funds fared just as badly. The ECB had been seen to be having a "good crisis", responding early to market tremors and preparing for a return to normality. German consumers and companies have relatively healthy balance sheets, while traditional savings banks and co-operatives have proved robust.

Employment in the financial sector has also remained relatively stable. Few bankers were involved in cooking up exotic products of the type that fell so quickly out of favour. A study by Helaba, the public sector bank, says

employment in the city's banks had dropped to about 74,400 during the third quarter of last year. The study forecasts a further drop to 71,000 by the end of 2012, implying job cuts of about 6 per cent from the high at the end of 2008 – not too bad considering the depth of the crisis.

At the end of 2009, 227 domestic and foreign financial institutions were headquartered in Frankfurt, only slightly down on the previous year, according to Helaba.

In the latest Global Financial Centres Index (GFCI), from the Z/Yen Group think-tank, the city remains in a select group of eight "global leaders" as a broad and deep financial centre – one of only three in Europe, with London and Zurich. The index finds London has fared comparatively worse as a result of the crisis.

Frankfurt professionals by and large accept that, in Europe, London retains many advantages. Michael Reuther, Commerzbank's top investment banker, says: "I cannot imagine doing without the structured finance business that we do out of London. London still has a lot of advantages over other locations. You really have connectivity between the city, banks, asset managers, hedge funds and academia."

Of Frankfurt and Germany, Mr Reuther says: "This is still the largest economy in Europe and a place to be if you have a client-driven business."

Frankfurt also has high-quality infrastructure, including one of Europe's best-connected airports, and a growing reputation in financial research and education, advances that have been championed by Roland Koch, leader of the regional government, who is standing down.

"The ECB would never have come here if its governors could not get here from all over Europe in one day," says Friedrich von Metzler, chairman of Bankhaus Metzler, one of Frankfurt's most venerable institutions. "Roland Koch always had a lot of interest in Frankfurt's financial sector."

His successor will be expected to build on these strengths in Europe. Yet the GFCI studies, which are

renewed every six months, also capture the region's waning relative importance. Frankfurt is scoring better than ever – but in the past year it has slipped out of the top 10 and is ranked 13th. Asian centres pose a new challenge to the established order.

The test for Frankfurt, according to the Helaba study, is to make the most of its "proven, respectable approach" and emphasise its strengths as a well-regulated forum for finance.

"If the financial centre assumes an

adequate role in the international reform of the financial architecture, this boosts its chance to emerge as a relative winner from the adjustment process in the banking world spurred by the crisis," the study says.

Only over several years will it become clear how well Europe has moved to try to stem the sovereign debt crisis.

The ECB intends to seize the initiative: it has published proposals for reforming the EU's fiscal and eco-

nomical rules, intending to bind the eurozone together more firmly after the recent wobbles.

Meanwhile, the European Financial Stability Facility, which will issue bonds on behalf of any eurozone countries that cannot tap the capital markets, will rely on technical support from Germany's government debt agency staff – based in Frankfurt. In crisis, as in good times, the city's role at the heart of European finance endures.



Inside this issue

Education Frankfurt's Goethe University is specialising in finance, a far cry from its days as a hotbed of student radicalism, writes James Wilson [Page 3](#)

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New Myzeil shopping centre

Eager to shake off a dowdy reputation

Liveability

Approval ratings have been rising, says Ellen Thalman

Twelve years ago, a surly taxi driver deposited Lynda Taumann-Yrisarry at the empty concrete square in front of Frankfurt's Deutsche Bank towers, where she expected to spend just three months on a consulting project.

"There I was in the middle of this very small cluster of cold, steel skyscrapers," says the American businesswoman, who had previously lived in eastern Europe, Asia and South America.

Frankfurt seemed to lack the pulse of other cities she

had come to know. "It seemed so sterile. At work, there were just these long, empty corridors and every door was closed."

Frankfurt's reputation as a dowdy banking centre with little flair or style has long made it the dreaded, career-ladder tour-of-duty. "In those days, I worked with a large contingent of Brits who went home to London every weekend," says Ms Taumann-Yrisarry.

But those who have decided to give the city of 665,000 a chance say not only that it has improved in the past decade, but that it has always taken some getting to know.

Mercer consulting group's 2010 quality of living survey ranked Frankfurt number seven of 221 cities worldwide.

Ms Taumann-Yrisarry's

tour lasted longer than she expected, and 12 years later she finds herself raising three German-American children and joining the ranks of Frankfurt burghers whose approval of their city has been rising in recent years.

"The city has definitely changed," she says.

Frankfurt's annual citizens' poll from December 2009 showed the number of people who would describe it as a "city in which one can live well", has grown to more than two-thirds of those surveyed, from only half when the question was first asked in 2003.

Frankfurters chose most frequently the adjectives international, economically strong, modern, and interesting and rejected the descriptions dirty, provincial and dreary.

The difficult traffic situation has gained the most criticism in recent years, while the perception that Frankfurt has a high level of crime has dropped by nearly 40 percentage points in the past 15 years.

Frankfurt has made an effort in recent years to beautify its inner city, and plans to make the central area more lively in the evenings, according to Nils Schalk, head of one of the Municipal Building Department's inner city planning teams.

It is trying to roll back some of its post-war land-



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Frankfurt as a Financial Centre



Learning zone: students at the House of Finance. There were almost 7,000 applications for 400 places for undergraduates and 40 per cent of the teaching is in English. The executive programme is taught exclusively in English

A concentration of economic knowhow

Education

James Wilson examines attempts at boosting city's financial sector

Frankfurt's attempts to improve its financial sector are reflected in the concerted effort over a number of years to turn the city and region into a recognised centre of education and research related to finance and business.

An example is the "House of Finance", one of a number of ventures (also including a "House of Logistics") being set up to concentrate the region's academic knowhow in the sectors considered essential to its economic success.

Uwe Becker, Frankfurt's city treasurer, says: "We have focused on education and infrastructure to improve the medium-term prospects of Frankfurt."

There has been a quantum leap in how Frankfurt is regarded as far as these issues are concerned. We need to develop knowhow in our region. We want to become Europe's biggest think-tank in many areas."

The House of Finance is part of Frankfurt's Goethe University and has recently moved into a €30m building on the university's new

campus close to the town centre. This comprises a number of research departments and institutions, including the Centre for Financial Studies; the Goethe Business School; the E-Finance Lab, which researches the growing role of information systems in the financial world; and the Institute for Law and Finance, with an interdisciplinary research programme. Altogether, 150 academic staff are represented.

The centre builds on expertise accumulated at the university over several years. While staff numbers have expanded, Professor Wolfgang König, executive director of the House of Finance, says the concentration of previously dispersed resources is even more important. "Having 150 people working together under one roof is a real improvement. We can do much more together than we could in the past," he says.

As well as postgraduate and graduate students, the house takes 400 undergraduates each semester: most recently, there were almost 7,000 applications for those places. "It means we can choose really good students," says Prof König.

Noticeable is the number of non-German speakers. At undergraduate level, about 40 per cent of teaching is in English; graduate programmes are taught mainly

in English and the executive programme is taught exclusively in English.

The House of Finance has had substantial support from, and interaction with, Frankfurt's banks and other financial institutions. One intention is clearly that it should help provide recruits to the city's financial industry – although it does not yet track the destinations of its graduates so it is difficult to establish how directly it does this.

The developments at the university are all the more striking for the contrast with the Frankfurt of old. The city was a hotbed of student radicalism in the 1960s and the university had an antagonistic relationship with the city that was already Germany's financial capital.

"Twenty years ago there was almost a complete division between the city and university – you would never even have seen a signpost to the university. Now that has totally changed and the city is very supportive," Prof König says.

Germany is less fixated on education rankings than the UK or US but in one index, published by the Handelsblatt newspaper, Frankfurt's university ranks fourth in the German-speaking world for its economic teaching, and sixth – second in Germany – for business studies. Prof König says: "Our ambition

is to develop into a leading European research and education institution for finance. That means being number one in Germany and I think we will achieve that."

The concentration of research is also the basis to influence policymaking regarding banks, says Jan Pieter Krahen, a director of the Centre for Financial Studies that is based at the House of Finance.

"We are trying to create a dialogue so we can com-

ment on relevant policy questions before they are carved in stone," he says.

The House of Finance adds to other regional teaching institutions in the financial sphere. They include the Frankfurt School of Finance and Management; the Technical University, Darmstadt; and the EBS University at Oestrich-Winkel near Wiesbaden.

Another new venture is the Frankfurt Institute for Risk Management, which offers executive pro-

grammes for bankers, led by academics from both the FSFM and the House of Finance. Wolfgang Hartmann, the former chief risk officer at Frankfurt-based Commerzbank, was one of the founders of the institute, which will also support research into risk management.

"We first started talking about this in 2007 and the aim was to improve the quality of risk management in our financial institutions," says Mr Hartmann.

"That aim has definitely been influenced to a certain extent by what has happened subsequently during the financial crisis."

Mr Hartmann says FIRM can also "develop a voice" to influence policy and regulation, distinct from German banks' own lobby groups, which he says are "often more reactive on issues rather than leading".

"We have to improve the collective work on regulatory issues. With our research-led approach we

can initiate debates about improving self-regulation in the industry in Germany and German-speaking countries," he says.

"Certainly, research into these issues was more advanced in the Anglo-Saxon world, but we in Frankfurt are catching up and the research that is being done here is improving. It also helps that FIRM can draw on the experience of bank people who have gone through the rapid changes in the industry."

Eager to shake off a dowdy reputation

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scape, in which the authorities redrew the map of the war-gutted medieval city to favour the modern consumer with ease of access to department stores, says Mr Schalk.

It is restoring some of the old town's original alleyways and closing off traffic arteries that have bisected the pedestrian zone.

Frankfurt's planning website boasts 40 projects. The plan for the city centre "is being discussed in a series of forums with the people of Frankfurt," says Mr Schalk. "We want to have an idea of what the people want."

Planners have also reclaimed large areas adjacent to the river Main, revitalising the old slaughter-

house quarter and the industrial parks to the immediate east and west. There they have built new parks and apartment buildings.

The city's east end will soon house the European Central Bank's new headquarters in the old wholesale market hall on the Hanauer Landstrasse, a street whose crumbling factories and warehouses have been turned into hip loft spaces with popular night clubs and shops.

The ECB has also drawn more attention to Frank-



Lynda Taumann-Yrisarry (above), values the comfort of being among so many other foreigners

furt's international community, which comprises 24 per cent of the population, according to the city's statistics office.

Ms Taumann-Yrisarry, who has Filipino and Puerto Rican roots, says what makes her so comfortable in Frankfurt "is that there are so many other foreigners".

She points to the variety of international restaurants, not just kebab shops, but "also nice restaurants – like the upscale Ethiopian", which cater to the banking crowd.

In addition, Frankfurt has

a number of schools, both public and private which offer bilingual programmes for foreigners.

The demand for English-language education has become so great that at least five private English-language schools have opened in the past 10 years.

A new public bilingual English-German gymnasium has also just opened.

The cost of living in Frankfurt compared with other big banking cities is also a reason that many people decide to stay, Ms Taumann-Yrisarry says.

Mercer ranked it well below London, New York and Tokyo in its 2009 cost-of-living survey.

One thing that has not changed is Frankfurt's green belt, which planners have gone to great lengths to protect, despite the need to expand the airport and the growing demand for suburban housing.

Frankfurt's forest is one of the largest city forests in Germany, and residents love to cycle along the Nidda river, which ambles through the outskirts of town, not to mention hiking in the nearby Taunus hills, which Frankfurt nuzzles toward at the north.

Even though many people cite the airport, only 15 minutes from the centre by train, with its flights to a large number of international destinations, as one of the city's big assets, the ease of getting out of Frankfurt is no longer the only reason to take a posting there.

Frankfurt may never completely shake off its boring reputation, but 41,788 people are fans – at least that is how many give it the thumbs up on Facebook.

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Frankfurt as a Financial Centre

Fear that the phoenix may not take wing

Corporate finance

Daniel Schäfer on attempts to ensure companies have access to funds

Germany's small and medium-sized industrial companies have emerged from last year's steep recession like a phoenix from the ashes.

Orders for the *Mittelstand*-dominated engineering sector, Germany's industrial heart and soul, employing 915,000 people, have risen by 27 per cent year-on-year from February to April.

The chamber of commerce (DIHK) is forecasting a 10 per cent rise in exports this year, driven by rapidly rising demand from China and other emerging economies for Germany's high-quality cars, machines and engineering products.

While this is a miraculous recovery – following a 25 per cent drop in production the year before – fears have risen in the past few months that the upswing

could be blown off course by a lack of finance.

"The acid test has yet to come," says Hannes Hesse, managing director of VDMA, the engineering association.

Mr Hesse joins a long queue of German industrialists to warn that the recovery could be derailed by a credit shortage in the remainder of the year, when loan demand is set to rise as companies seek to finance orders that are rapidly pouring in.

The fear is that banks, weakened by several years of financial crisis, could use companies' lacklustre 2009 annual reports as an excuse not to grant new loans.

"The banks have become more critical. In the face of worsening annual reports and lower ratings, they will cut credit lines and hesitate to give loans," says Lutz Jaede, partner and restructuring expert at Oliver Wyman, a consultancy.

But the situation is not all hopeless for Germany's *Mittelstand*. Several of the country's largest banking groups have recently launched programmes

aimed at small and medium-sized business.

Partly state-owned Commerzbank started a *Mittelstand* financing initiative, which included the nomination of a special commissioner who looks at critical loan decisions and a research programme to assess the prospects of hard-hit sectors such as the automotive and engineering industries.

A third of the €5bn in loans earmarked for the initiative has already been drawn by the companies, says Markus Beumer, head of Commerzbank's *Mittelstand* business.

The government has also stepped more directly into the fray of *Mittelstand* financing. Last year, it launched a €115bn rescue fund for companies that were being hit by the financial crisis.

The fund, which runs until the end of this year, has granted only €12.3bn in loans so far to more than 13,800 companies.

In addition, several banks have started programmes to fill the gaping equity hole at German industrial com-

panies. "German *Mittelstand* companies have seen their equity melting away like ice in the sun during the crisis," says Axel Nawrath, management board member of state-owned lender KfW.

KfW and Commerzbank recently announced a €500m *Mittelstand* equity fund, which is expected to start shortly and provide

Banks could use companies' lacklustre 2009 annual reports as an excuse not to grant new loans

companies with revenues of up to €500m with capital to expand their business.

"Only 7 per cent of *Mittelstand* companies are prepared to deal with private equity. There is a market niche here that will have to be filled," Mr Nawrath replies, to criticism that the bank would crowd out private rivals with this move.

It adds to a similar pro-

gramme by Deutsche Bank. Germany's largest lender is teaming up with M Cap Finance, a *Mittelstand* financing specialist, to start a €300m equity fund for small and medium sized companies.

Germany's public sector banks have also earmarked €550m in equity this year for stakes in *Mittelstand* companies.

All these programmes and initiatives might make the *Mittelstand* financing sector seem overcrowded, but experts say there is still a lot of business left for banks and investment companies that focus on small and medium sized companies.

"More and more banks are coming into our sector of the market, but I think there is enough business for everyone. In these niche businesses, you have to invest a lot of time. I call it handcrafted banking," says René Parmantier, chief executive officer of Close Brothers Seydler Bank, a mid-cap adviser.

The *Mittelstand* financing gap will be aggravated in the coming years when a

series of mezzanine programmes runs out.

During the heyday of the credit markets, they provided mezzanine capital to risky companies that often could not find financing elsewhere.

The funds bundled those loans and sold them off to capital markets.

Today, the market for such transactions is all but closed, which means that a wave of companies will struggle to refinance up to €4bn in mezzanine capital in Germany in the next four years.

This example underscores the dilemma both for banks and *Mittelstand* companies. While the market for creditors with high ratings and sound business forecasts is crowded, companies with more shaky business prospects face intense difficulties.

Experts forecast that more and more *Mittelstand* companies will seek to replace bank financing with bonds as a consequence. "I think the high-yield segment will also pick up as an alternative to bank credit," Mr Parmantier says.

Exchange looks abroad for growth

IPOs

James Wilson on a campaign to influence companies abroad

The market in initial public offerings is often regarded as an important barometer of the strength of a financial centre.

Frankfurt is holding its own among European markets – although it and its near neighbours seem to be losing out as economic power shifts seemingly inexorably to Asia.

In the first quarter of this year, there were four significant IPOs in Frankfurt – a number that led to optimism that a financial crisis of two years' standing was coming to an end.

The listings raised \$2.24bn, more than on any other European exchange in the same period, according to a quarterly IPO barometer from Ernst & Young, the audit and professional services firm.

The largest listing in Germany – of Kabel Deutschland, the country's largest cable television operator, by its private equity owners – was among the 10 biggest worldwide. But the total of almost \$8bn raised in Europe in the first quarter was well short of the \$19.5bn raised in China alone in the same period.

In 2006, more than 30 per cent of IPOs were in Europe; in the first quarter of this year, the proportion was 15 per cent.

Like many European exchanges, Frankfurt's Deutsche Börse – Europe's biggest exchange group by market capitalisation – has been trying to improve its links to important emerging markets so as to encourage a stream of German listings by foreign companies.

Georg Alexander Höpftner, Deutsche Börse's executive vice-president for market services, says the exchange has a dedicated primary markets team for China – source of one of this year's quartet of IPOs – and another for eastern Europe, including Russia.

"Russia and China are definitely areas of focus for our business," he says.

India is another area to get special attention: Deutsche Börse has a co-operation agreement with, and a minority stake in, the Bombay Stock Exchange, selling the advantages for Indian companies of raising capital in Frankfurt.

Mr Höpftner says Deutsche Börse is pleased with its performance this year with regard to IPOs. "We are cautious about the pipeline; we will have to see what markets look like in six months, but we have some good prospects there," he says.

Caution is probably warranted and one private equity investor in Frankfurt says the market is still shut for smaller IPOs.

René Parmantier, chief executive of Close Brothers Seydler Bank, a mid-cap adviser in Frankfurt, says: "Our IPO pipeline looks good. The TMT [telecoms, media, technology] side is very strong and we also have two or three 'old economy' companies coming through.

"In the course of this year and next, we think things will pick up more strongly."

When markets do recover, what does Frankfurt offer? It is one of Europe's most liquid markets and, Mr Höpftner contends, provides a "a quality stamp of reliability and transparency" for any company joining Deutsche Börse's "prime standard" listings, for which the requirements are most stringent.

It is not simply a German exchange: on Xetra, Deutsche Börse's electronic platform, more than 70 per cent of volume is from outside Germany.

Mr Höpftner says companies in most sectors can often find a good peer group of comparable companies, which makes benchmarking easier and helps generate interest from investors and analysts.

The exchange is particularly strong in sectors such as engineering and renewable energy – more than 100 green technology companies have raised more than €10bn since 1997.

On the other hand, Frankfurt is probably underweight in financial services, while natural resources companies have gravitated to the London Stock Exchange.

Comparisons with London – Europe's deepest pool of capital – are inevitable. The market capitalisation of the London market far outweighs Frankfurt's, measured as a percentage of

Frankfurt is one of Europe's most liquid markets and 'provides a quality stamp of reliability and transparency'

their respective country's gross domestic product.

Mr Höpftner acknowledges the widespread perception that Deutsche Börse is junior to London, but says: "The reality already indicates that in terms of liquidity in general, and in access to global investors in certain peer groups and sectors, Deutsche Börse has surpassed the LSE."

Julie Teigland, a partner at Ernst & Young with responsibility for strategic growth markets in Europe, the Middle East, India and Africa, says Frankfurt is a good market but sometimes sells itself short.

"I think it needs to invest more in its profile and persuading companies from abroad to list in Germany. What has London got to offer that you do not have in Germany? The German market has some very good reference points in terms of coverage by analysts and peer groups."

Mr Parmantier contends that, while the focus on attracting business from emerging markets is welcome, Deutsche Börse could also do more for the German *Mittelstand* – the swathe of mid-sized, often family-owned companies that are the country's economic backbone.

"I don't see enough initiatives to help those companies come to the market," he says, while acknowledging that sometimes such companies are reluctant to go public.

Who would want to run the eurozone?

The ECB

Ralph Atkins looks at the candidates lining up to succeed Jean-Claude Trichet

On Frankfurt's eastern edge, construction workers have started restoring the city's former vegetable wholesale market – a cavernous brick hall built in the 1920s and designed by Martin Elsaesser, one of the Weimar republic's most important architects.

To one side, a twisting, 45-storey tower will be built to provide additional office space. By the end of 2013, the finishing touches should have been made to the European Central Bank's new headquarters.

The start of building works on the €500m-plus project reflects European policymakers' confidence in the durability of the 16-country eurozone, in spite of the crisis over government finances across the region. Since its creation in 1998, the ECB has occupied rented premises in the centre of Frankfurt.

But another change in the works at the ECB could have a more immediate influence on the future direction of the euro's institutional guardian. In November 2011, Jean-Claude Trichet's eight-year, non-renewable term as president runs out.

Widely considered the front-runner to succeed him is Axel Weber, president of the Bundesbank, Germany's central bank, which is located across town on Frankfurt's northern fringe.

The switch in the top central banking posts in Frankfurt could have as much of an impact on the

ECB's image as would any shiny, new head office. Although it has lost its sole power to set interest rates since the launch of the euro in 1999, the Bundesbank remains the conservative conscience of the ECB, where Mr Weber is a member of the governing council. Moreover, the ECB – in its ideology as well as organisation – was largely modelled on the Bundesbank.

Mr Weber's ascension to become its president would reinforce the ECB's links with a monetary institution that since the second world war has been respected deeply in Germany and beyond for its inflation fighting credentials.

What kind of ECB might emerge under Mr Weber's leadership? The Bundesbank president has struck a hawkish tone since he took the job in April 2004. In recent weeks he has criticised the ECB's decision to intervene in eurozone government bond markets as part of efforts to stabilise Europe's 11-year old monetary union.

He has also warned that high levels of government indebtedness could result in higher official interest rates – to keep inflationary pressures in check.

But it is not automatic that Mr Weber, 53, would be able – or want – to portray himself as a hardliner if he took over at the ECB. The ECB is more culturally diverse than the Bundesbank; its 22-strong governing council includes central bank governors from each of the 16 eurozone member states.

The ECB has also developed a tradition of taking decisions by reaching a consensus among those on the council, rather than by voting. So its president has to become skilled in forging a common position on often controversial subjects. It is also important



Under foot: leaders will want an ECB president who can navigate monetary union in tumultuous times Bloomberg

to show verbal discipline; the ECB's credibility with financial markets would be undermined if its president appeared to be at odds with the rest of the council.

Such a role might suit Mr Weber better than his hardline reputation would suggest. A

The ECB's president has to become skilled in forging a common position on often controversial subjects

Bundesbank president has to cultivate a conservative image.

But unlike many of his predecessors, Mr Weber has spent most of his career so far as an academic economist, rather than a member of the German policymaking establishment. He was previously an economics professor

in Bonn, Frankfurt and in Cologne, where his specialism was international economics.

Jan Pieter Krahen, director of the Centre for Financial Studies in Frankfurt, says: "In a way, Axel Weber is not a Bundesbanker."

He is more an international economist who happened to start out at the Bundesbank and has followed its traditions but in his mind he is much more open. He could well play an integrative role within Europe."

It is not yet certain that Mr Weber will become the next ECB president. Although Berlin is likely to push his candidacy hard, other eurozone countries may oppose appointing a German to head an institution located in Germany, especially given the Bundesbank's conservative reputation.

The crisis endured by the eurozone this year over its public finances has increased the stakes;

European leaders will be looking for an ECB president who can successfully navigate Europe's monetary union through what could prove an extended period of turmoil and concern about its stability.

Another candidate is Mario Draghi, Italy's central bank governor, who has been polishing his conservative credentials recently and has gained hands-on global experience in recent years as a chairman of the Financial Stability Board, the international body of regulators and central bankers.

If eurozone governments cannot agree between Mr Draghi and Mr Weber, a compromise candidate could be Nout Wellink, the Dutch central bank governor.

Mr Weber will have to build support and his credentials as a policymaker in whose hands the future of the eurozone would be safe – if he wants his next office to be in Frankfurt's former *Grossmarkthalle*.

Few prepared to gamble on future demand for space

Property

James Wilson looks beyond the skyline at the city's uncertain prospects

Nothing about Frankfurt says financial centre like its "Mainhattan" skyline.

In the past two years, several towers have been added and, in spite of the economic crisis, cranes loom at other sites where developers are at work.

This year Jean-Claude Trichet, president of the European Central Bank, broke ground for its new headquarters.

In general, however, times have been as tough for developers and property professionals in Frankfurt as they have in most other cities.

The projects being completed represent commitments made during the last of the boom years and, for now, speculative development of further office space is very firmly on hold.

Few want to gamble on future demand when vacancy rates remain high and the prospects for big financial companies are far from secure.

Added to this are specific local factors, such as Commerzbank's takeover of Dresdner Bank last year.

The merger of the two

Frankfurt-based institutions is likely to mean a reduction in the combined bank's needs for office space.

"The volume of new office premises coming on to the market in the next two years will be low by Frankfurt standards," says BNP Paribas Real Estate.

According to BNP Paribas, take-up of office space in the city during the first quarter of the year was 58,000 sq m – well below the pace even of 2009, when a relatively low 422,000 sq m of space was let over a 12-month period.

At such a rate, it will take more than six years to fill available office space, even though it is considered to be a buyers' market, where

tenants have significant power to renegotiate contracts and drive harder bargains with regard to rents.

Most agencies agree that prime rents in the city have fallen by between 4 and 7 per cent a year, although average rents are more stable.

Marco Mallucci, director of office agency at Savills in Frankfurt, says: "The first quarter was very weak. Companies are looking around a lot because conditions are good, but they are being very demanding."

"They want to be able to be much more flexible about their buildings. What is happening is mainly relocations – there has not

been so much fresh investment from outside."

Vacancy rates – now at about 13 per cent – are usually relatively high in Frankfurt but this does not mean there is instant availability of good premises for footloose companies. Agents say a lot of offices are now not of the best standard.

Rainer Hamacher, head of office letting at DTZ in Frankfurt, says: "There is a real need for top quality offices. The best international companies do not want to take old buildings."

"So while vacancy rates are high, companies will not automatically take up this space. There is a dilemma for landlords of older buildings, who may

have to gamble on whether an expensive refurbishment may attract a tenant."

One high-profile office refurbishment nearing completion is that of Deutsche Bank, Germany's biggest, which decided to overhaul its landmark 26-year-old "twin towers" and create what is billed as one of the world's most environmentally friendly offices.

The €200m, three-year refit will cut the building's energy consumption by at least half and provide room for 600 more staff.

The project should also leave its once-frequent speculation that the bank could base itself in London or elsewhere.

"Deutsche Bank's refurbishment sends a strong statement that they are here and staying here," says Mr Mallucci.

Supporting Frankfurt's long-term prospects are its standing as Germany's financial centre and its relatively low costs.

The city is Germany's most expensive office market but ranks as relatively cheap compared with some other European locations.

According to Jones Lang LaSalle, prime office rents are now €408 a sq m a year – about two-thirds the rate in Paris and less than half the cost of offices in London's West End.

Frankfurt's city authorities are playing their part

in trying to ensure the city thrives, expanding the U-Bahn network and opening new sectors for development.

Uwe Becker, city treasurer, says: "There are a lot of German cities that have big financial problems and are struggling to finance development. That is not the case with Frankfurt. We have solid finances and are able to invest in our future."

Savill's Mr Mallucci says the city council "has got a lot, lot better. They are very engaged."

"They had got a bit complacent, but they are investing a lot, making improvements and playing an important role."