

HEAD OFFICE: LONDON'S RISE AND FUTURE AS A CORPORATE CENTRE

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Summary

London has become a major centre for headquarters:

- Headquarters (HQs) and related functions have been a fast-expanding source of employment and economic output in London (and the UK) for the last decade.
- Between 2003 and 2018, London was the top ranked destination city globally for foreign direct investment into headquarters measured by number of projects.
- While the geographic focus of global headquarters is shifting, the biggest multinationals have overwhelmingly chosen London as their European HQ: London and the Wider South East host 55 per cent of the world's largest 500 companies' European HQs, and attract a fifth of all foreign direct investment into HQ projects in Western Europe.

Global companies' headquarters are changing, reflecting more agile ways of working...

- Most sectors are seeing a “slimming down” and “scattering” of their head office functions. Retailers, business services and other non-tech companies are reducing city centre footprints to cut costs, and teams with global responsibilities can be distributed between different cities.
- In some sectors – particularly the largest multinational tech and digital companies – there is a tendency toward larger, more multifunctional HQs.

...concentrating value in global cities, but also bringing challenges:

- HQs create highly paid jobs and tax revenue, forming the nuclei of professional and business service clusters.

- However, they also put pressure on local infrastructure and are accused of or 'can play a role in' increasing inequality.

HQ location decisions are motivated by a range of factors:

- The most influential element in HQ location decisions is access to talent – the majority of location factors relate directly to talent.
- Taxation and business regulation are also important, but stability and certainty are often more important than exact levels of taxation in themselves, and the influence of both on HQ location decisions is often overstated.
- Whilst attracting and sustaining a large and diverse talent pool is the most important factor, there are many other interrelated factors that can make a city attractive or unappealing as a location for HQs.

London currently fares well on talent and regulation, but is not invincible...

- London has a particularly strong offering as an 'HQ city', with a wide variety of factors that make it an appealing location.
- London's access to talent is heavily reliant on the city's openness to international migration.
- Housing affordability and strained transport infrastructure also serve to make the capital less appealing to talented workers.

...and should take action to enhance the city's attractiveness to HQs. Our research suggests that priorities should be to:

1. Sustain London's reputation for openness and its talented and innovative workforce

- **The Mayor of London** should continue to project an international image that welcomes overseas business investment and migration.
- **London government** should also continue to lobby for an immigration policy that supports London's HQ economy alongside other sectors, and should seek more regional control of immigration policy if this cannot be achieved across the country.
- **London and national government** should work together to spearhead improvements in skills provision and education for Londoners, particularly in the area of digital literacy.
- **National government** should preserve the UK's business climate, providing as stable and predictable a tax environment as possible; ensuring that visas are as easy as possible to obtain, at all skill levels.

2. Strengthen and coordinate the promotion of London as an HQ city, while raising ambitions for UK spinoffs

- As implied by London & Partners' name, investment promotion needs high level political and corporate leadership.
- **National government** should help to promote its capital to the rest of the world, working with London & Partners to champion London's role as an HQ City as a strategic asset.

- On top of providing support to businesses that consider setting up strategic teams in London, **London & Partners and the Department for International Trade** may also have to grow their teams dedicated to helping retain existing HQ functions.
- **National government** should set an objective of increasing investment in the rest of the country by businesses that have HQs in London.
- **Businesses** should work more closely with London government to ensure that the HQ economy's needs are understood; **London & Partners** should also seek to work better with private sector partners – in particular real estate agents, developers, and providers of professional services.

3. Act decisively on housing and transport investment

- Cost of living and the quality of infrastructure are not only major issues for Londoners; they also underpin HQ decision-making.
- **Local government and the Mayor of London** should continue to lobby national government for investment in public transport and housing. **National government** should maintain and enhance international transport infrastructure.
- **Businesses** should also improve efforts to 'give back' to the cities in which they settle, from charitable giving to supporting local employment and businesses.

4. Monitor London's HQ economy

- To avoid complacency and overreaction, the Mayor of London and national government should be looking out for:
 1. A decline in the opening of new HQs in London.
 2. A decline in overall head office employment.
 3. A long-term decrease in the number of business visits to London.

Introduction: The rise of London as a headquarter city

In recent years, London has played an increasingly important role in hosting the headquarters of multinational corporations (MNCs) – yet this aspect of London’s commercial activity has been somewhat understudied in comparison with its role as a centre for global tech, finance and creative industries. This is partly because headquarter (HQ) location choice is usually a secretive process,¹ and partly due to the diverse range of functions that can comprise “HQ activities”.

Nonetheless, the decisions of large businesses play a major role in shaping cities, and the public debate over how headquarters should relate to their cities has also intensified. As technology multinationals have grown tremendously in size and value, their monumental headquarter investments are attracting attention. Amazon’s HQ2 public auction and Apple’s new HQ in Silicon Valley have rekindled debate about using public budgets to attract headquarters: some in US cities see them as a lifeline, others as a mixed blessing.² IBM³ and Adidas⁴ have expanded their regional HQs in Shanghai this year, and Alibaba is now transitioning to a two HQ model, in Hangzhou and Beijing.⁵

London has also attracted new corporate temples as Bloomberg, Facebook and Google have made very large investments in new central London offices. However, Brexit has brought into question London’s position as a centre for European HQs: the location of multinationals’ offices has featured heavily in Brexit debates, and in the press every headquarters move becomes “about” Brexit.

This report seeks to better understand London’s current HQ economy, its impact on London, how it has developed to date, the risks that it faces, and how policy should respond to these. This introduction first surveys London’s success as an HQ location – both through a review of recently reported locations in, and relocations from London, and through analysis of longer-term trend data on London’s performance.



Case studies: London's HQ stories

Brexit has brought about a wave of stories relating to the relocation of global and regional headquarters into or out of London. Perhaps unsurprisingly, the picture is much more complex than the headlines may suggest. There is a huge variation in HQ activity amongst businesses of different sizes, sectors and countries of origin. Whereas London is experiencing decline or uncertainty in some areas, it appears to be thriving in others. Some examples of the different types of “HQ stories” about London are included in the case studies on the facing page:

HQ stories

Recently committed to stay:

- **HSBC**, reportedly considering leaving for Hong Kong on multiple occasions (particularly post-crash in response to banking regulations), committed in 2016 to keep its global headquarters in London – although up to 1,000 employees could move to Paris.⁶ HSBC's UK headquarters is now in Birmingham, but the global HQ is in London.
- **Unilever** had planned to consolidate from London to Rotterdam but shareholders forced the company to back down – so it announced in 2018 that it would maintain a “dual-listed” structure.⁷
- In 2019, **Citi** are buying their HQ in London, but also expanding their Paris office.⁸

Moving into London from out of town:

- **Amazon's** UK business is headquartered in London and is taking new office space for at least 1,700 people in corporate functions in Hackney and is also doubling its London R&D function, after moving out of Slough. Plans were announced in 2014. Amazon also invested in smaller headquarter functions in other European cities including Paris, Madrid and Milan, while its European base was originally set up in Luxembourg in 2006.⁹
- In 2018, medicine company **Novartis** unveiled plans to move from its Surrey business park into London – to be part of a new life sciences cluster in White

City. The business is headquartered in Switzerland but the UK office will be “supporting the global operations of Novartis”, including through R&D functions.¹⁰

- **Kraft Heinz's** European HQ moved from Hayes to central London in 2017.¹¹

Large upcoming or recent commitments to London:

- **Apple** announced in 2016 that it was expanding its London presence, leasing new office space at Battersea. At the time of the announcement, Apple planned to move 1,400 employees there, with space for 3,000 employees in total. Apple's European HQ remains in Cork, Ireland, where it employs 6,000 staff – mostly in admin, sales, and some in manufacturing functions. Reports claim that the London site will be one of Apple's largest outside America.¹⁹

- **Google** announced in 2013 the construction of a much larger London HQ, at an estimated cost of £1 billion, planning to host 7,000 employees.²⁰ Google also has a base in Ireland for its support functions for Europe, and has announced three subsequent expansions there since 2003.²¹

- **Bloomberg** invested in a new building to “bring its 4,000 London-based employees under one roof” - the building opened in 2017 and hosts Bloomberg's European HQ²² - and **Facebook** also opened new London office space in 2017.

Startups heading to London:

- **Spotahome** – a Spanish property

rental platform announced its relocation to London in 2019 – a decision that their founder attributes to senior staff's preference for London: “I was talking to top executives and it happened either they were already in London or were more willing to relocate to London [than Madrid]”.²³

- **Airwallex**, an international payments start up based in Melbourne unveiled in 2019 its plans to expand in Europe and Asia, and has chosen to locate their European sales, development and compliance functions in London.²⁴

Scaleups moving HQs within London:

- **Since 2018, Monzo** is moving to larger premises in the City.²⁵
- **Revolut** moved from an incubator in Level39 to Columbus Building HQ

Older HQ moves to London from abroad:

In 2014, **Starbucks** announced plans to move their European HQ from the Netherlands to London.¹² Reporters linked the move to a change in tax rules introduced by the UK government, but Starbucks said that the move would enable them to “better oversee the UK market, where more than half our European stores are located”. In 2018 Starbucks announced plans to close their offices in Amsterdam and consolidate its European headquarters in London, as it moves to a model where it leases its stores in several other European countries to an “operating partner”.¹³

Insurance firm **Aon** moved its global HQ from Chicago into London, shifting its domicile to the UK in 2012.¹⁴ The move was high profile, because of Aon's size – the company has “approximately 500 offices worldwide, serving 120 countries with 50,000 employees”, but also because it became the first company in US stock market S&P 500 to be domiciled in the UK.¹⁵ According to Aon, “the move provides greater access to emerging markets and takes better advantage of the strategic proximity to Lloyd's and the London market as one of the key international hubs of insurance and risk brokerage.” Analysts also attribute the move to a specific change in tax rules for “Controlled Foreign Companies” introduced by the government in 2012¹⁶ – though changes have since been found by the European Commission to “partially break” EU rules on state aid.¹⁷ This move to London also coincided with an expansion of Aon's presence in Dublin – specifically its Global Risk consulting function.¹⁸

on Canary Wharf estate in 2018.²⁶

- In 2018, **Digital Shadows** moved to Columbus Building HQ on Canary Wharf estate.²⁷

European regulators out:

- In 2019, The **European Medicines Agency** has relocated its HQ from London to Amsterdam due to Brexit, taking around 900 jobs.²⁸
- **The European Banking Authority** has moved its HQ from London to Paris in 2019 due to Brexit, taking 185 jobs.²⁹

Companies leaving London:

- **Shionogi**, a Japanese medicine company, has based its European HQ in London in 2014 but in 2019 unveiled plans to

“merge its UK-based operation with a Dutch subsidiary”, which “would see the substantial financial dividends of Shionogi's European operations bypassing London in favour of the new headquarters”.³⁰ Shionogi's plans are not expected to lead to “significant” movements of staff but London may be missing out on some executive jobs or potential.

- **Panasonic** moved its European HQ from Berkshire to Amsterdam in 2018. Reasons for the move made public were uncertainty about the UK's “access to free flow of goods and people”, “improved efficiency and cost competitiveness”, and tax treatment: “Panasonic's decision was driven by a fear that Japan could start considering the UK a tax haven if it cuts corporate tax rates to attract business” according to Panasonic Europe's Chief Executive. Panasonic said that “fewer than approximately 10” people would be affected by the move, out of a staff of 30 - but this excludes new hires in Amsterdam.³¹ Other Japanese companies are reportedly making similar moves after uncertainty around how Japanese tax authorities will treat such mergers after Brexit – in 2019, Sony announced it a shift to Amsterdam.

- **Dyson** announced in 2019 that it would move its corporate head office to Singapore. Reasons advanced by Dyson were to locate closer to its growth markets and manufacturing activities. The Chief Executive is already based in Singapore and will be joined by the Chief Financial

Officer and Chief Legal Officer. Outside sources attribute the shift to the UK's disclosure rules for privately owned companies, stricter than Singapore's. Another corporate tax expert quoted by the *Financial Times* mentions that the Singapore Economic Development Board may have offered a corporate tax break on the account that Dyson “produces high-end goods that would transfer technology to Singapore; it will probably increase capital expenditure and high-skilled headcount; and it would boost R&D activity in the country – all of which is of interest to Singapore.”³²

Companies not coming to London

- Our knowledge of these is very poor, because location plans are highly secretive. Asked about examples of companies not coming to London, one interviewee mentioned that the city missed out on a “hot European fintech unicorn, with over £1 billion revenue,” which was looking to expand from another European city. “Their natural choice would have been London but they went for Berlin”, because executives wanted to be certain of their future ability to recruit talent throughout the EU.

- The same interviewee also mentioned examples of Japanese companies not coming to London: “Their corporate centre preferred London for longstanding reasons. But because of Brexit they prefer Amsterdam or Germany.”

London's HQ story in numbers

These much-publicised moves should be seen against a backdrop of considerable success. London has a long history as a location of choice for global corporations' head offices, yet data suggest that this trend has recently intensified. New and converted office landmarks are changing the face of London's central business districts as well as that of emerging locations such as Hammersmith, Battersea and King's Cross.

1. HQ employment and output

National statistics chart a formidable rise in employment in headquarters and related functions since 2007.

As Figures 1 and 2 show, there were three and a half times more jobs in "activities of head offices" in 2016 than in 2007. This trend is not restricted to London – employment in activities of head offices has risen just as fast in the UK as whole.

Some of this growth may be explained by a change in how national statistics account for staff. In 2007, the Office for National Statistics expanded its definition of "head office activities" from "employment in multisector conglomerates" to become an industry in itself.³³ But the growth in head office employment has continued since that change, and correlates with a marked increase in the number of foreign investment HQ projects into London, which is discussed further below.

Not only has head office employment boomed: so has employment in professional service activities such as accounting, public relations, real estate, management consulting and tax advisory – which typically support decision-making and senior management functions in HQs (Figure 1). Looking at the past two decades, employment in these sectors has also risen much faster than the London average (twice as fast in "accounting and tax consultancy activities", nine times as fast in "management consultancy activities"; Figure 2). And while this professional services cluster doesn't only serve London-based clients, its growth does suggest that London has become more specialised in servicing corporate decision makers, and that this cluster has been one of the leading forces in London's economy.

Key for Figures 1 & 2

- Legal activities
- Accounting, bookkeeping and auditing activities; tax consultancy
- Activities of head office
- Business and other management consultancy activities
- Public relations and communication activities
- London average (applies only to Fig. 2)

Figure 1: Employee jobs in head office activities and related professional services, London

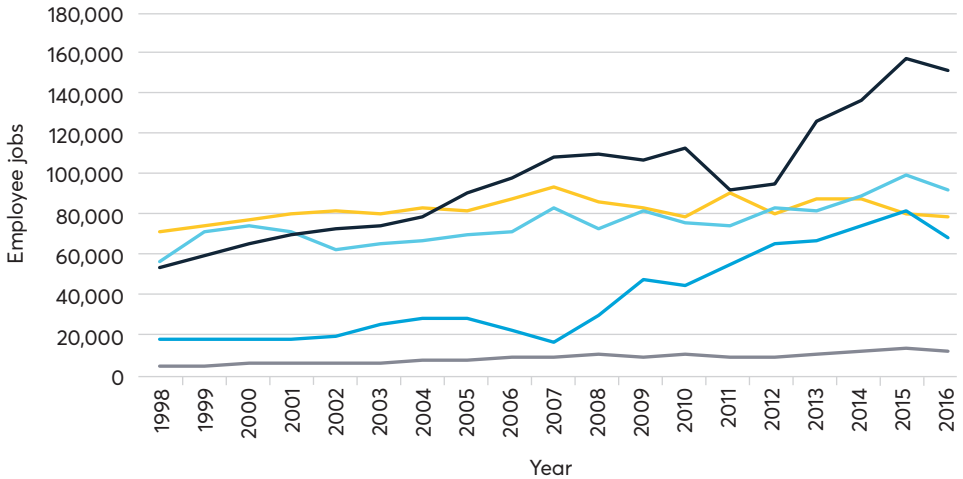
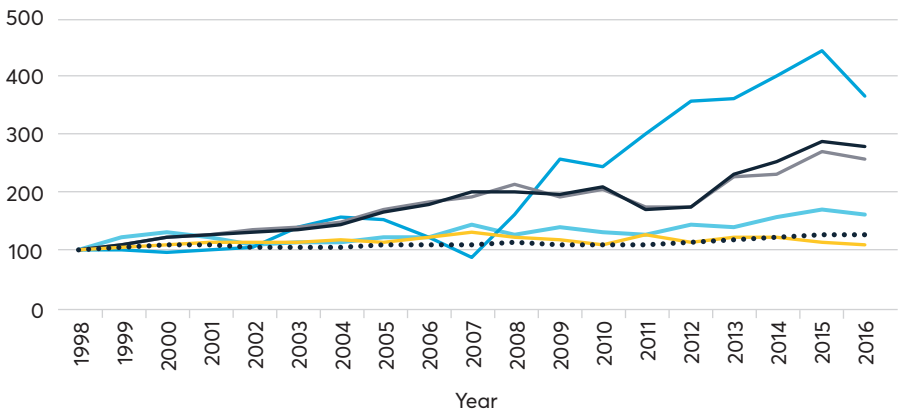


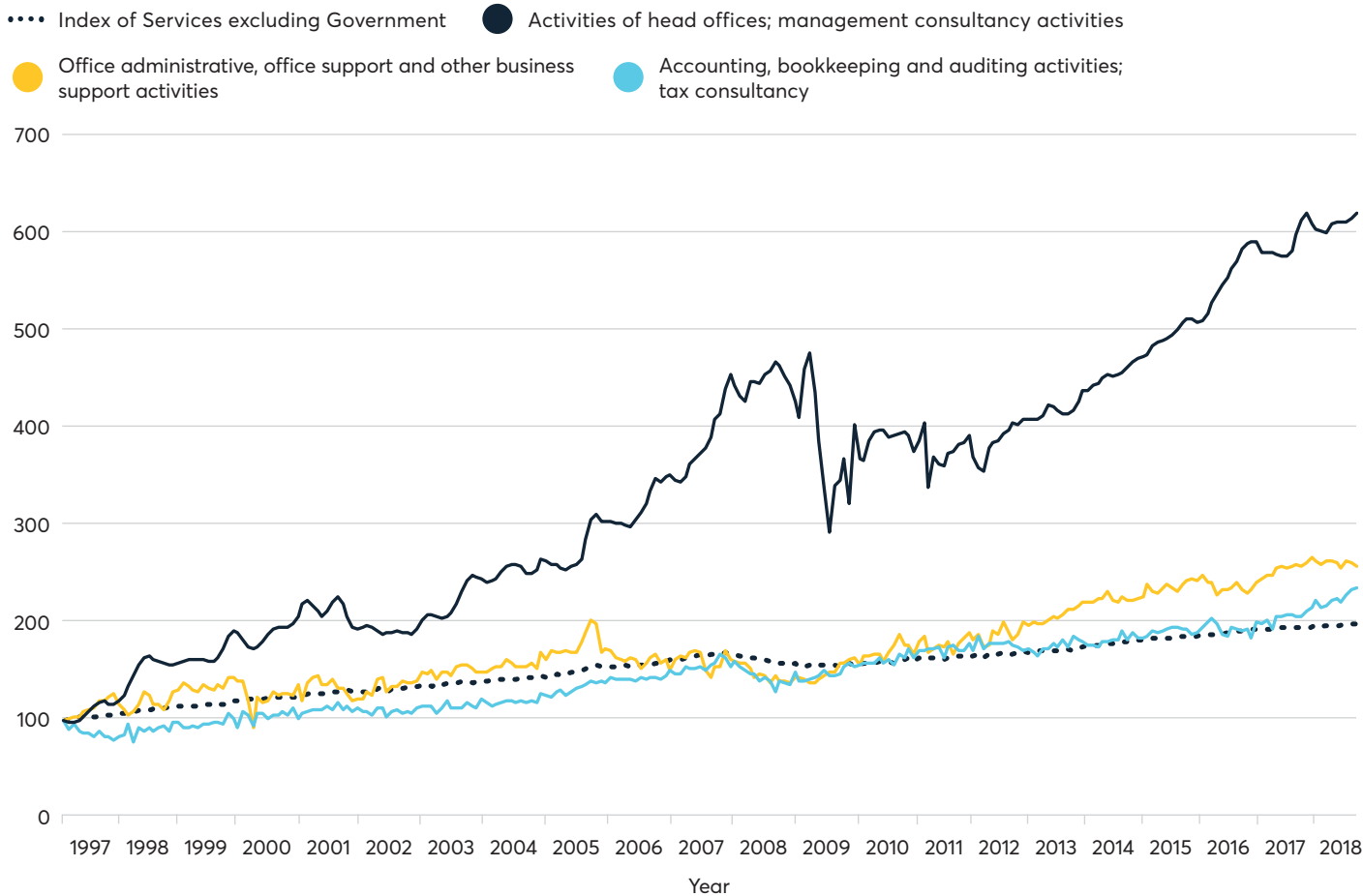
Figure 2: Change in employee jobs in head office activities and related professional services, London (rebased 1998 = 100)



Source, Figure 1: Greater London Authority (2018), London Employee Jobs (1998-2016). Using Workforce Jobs QMI and the Business Register and Employment Survey. London employee jobs for industry groups (3-digit SIC), 1998 to 2016

Source, Figure 2: Centre for London analysis of Greater London Authority (2018), London Employee Jobs (1998-2016). Using Workforce Jobs QMI and the Business Register and Employment Survey. London employee jobs for industry groups (3-digit SIC), 1998 to 2016

Figure 3: Change in the output of head office activities and related professional services, UK (rebased 1997 = 100)



Source: Office for National Statistics (2019). Index of Services

The economic output of “activities of head offices” and “management consultancy activities” has shot up too, increasing sixfold since 1997 as shown in Figure 3 (data is only available for the UK as a whole). This increase is greater than that in employment, meaning that these sectors’ productivity has risen, an anomaly in a time of stagnating (or even falling) productivity for the UK. Output from office administrative support and from accounting and tax consultancy activities has also risen faster than the “all services” baseline, albeit less impressively and only since 2012.

2. London’s global position

The growth of employment and output in head offices and related functions is mirrored by the persistent strength of London and the Wider South East (extending from Cambridge and Oxford to the south coast) as the leading European base for the world’s largest MNCs, and by the increase in the number of overseas HQ investment projects in the region.

Fortune Global 500 companies

Apart from a few exceptions, global HQs usually remain in their country of origin – but multinational companies often set up regional offices that provide corporate leadership for a group of countries in which the company trades. While the UK’s position in global HQ rankings is eroding slowly (as more non-European companies enter the Fortune Global 500), London’s position as a centre for regional headquarters is very strong. London is by far the preferred location for non-European multinationals’ European headquarters. According to a 2018 Deloitte study, out of the 201 Fortune Global 500 companies that have a headquarters in Europe, 114 had located them in the UK, of which 111 were in London and the Wider South East. In other words, London (87 HQs) and the Wider South East (24 HQs) together accounted for 55 per cent of top companies’ European HQs – followed by Geneva (7 HQs), Amsterdam, Dusseldorf and Brussels (5 HQs each).³⁴ Overwhelmingly, the biggest multinationals have chosen London as their European HQ.

Foreign direct investment (FDI) into headquarters

London is not only a major centre for existing companies' headquarters – the city is also a great attractor of overseas investment into new headquarters projects, large and small. According to the fDi Intelligence database – which is not exhaustive but is regarded as the industry standard³⁵ – **London was the top-ranked destination city globally for foreign direct investment into headquarters between 2003 and 2018 measured by number of projects, and third-ranked by capital expenditure** (Figure 4). London hosted six per cent of the world's HQ foreign direct investment projects – and that figure increases to eight per cent if we include the rest of the Wider South East.

Since the UK's vote to leave the EU, London is increasingly presented as being in competition with other European cities. Nevertheless, in recent years, **London and the Wider South East has continued to stand out as the leading attractor region of "HQ" FDI projects, attracting one-fifth of all those into Western European countries since 2003** (Figure 5). This is a significant flow of new investment, albeit less than the region's 55 per cent share of Fortune Global 500 European HQs. Still, London's attraction of HQ investments has continued at pace, against a backdrop of slowing growth elsewhere since 2008 (Figure 6).

The fDi data also suggest that nearly all HQ investment projects into London serve international markets (Figure 7) – half serve other European countries, a further 19 per cent also serve markets outside Europe (often EMEA), and 12 per cent are investment projects for global headquarters. (This excludes 20 per cent of projects where data on markets served is unspecified.)

Table 1: Top 20 cities for FDI HQ investment, 2003-2019

Rank	Top 20 Destination Cities	Number of foreign direct HQ investment projects 2003-2019	Estimated total capital expenditure (\$m) (2003-2019)	Pre-recession annual average (2003-2006)	Post-recession annual average (2015-2018)	Change pre- and post-recession
1	London	591	7,556.1	24	56	+137%
2	Singapore	532	11,481.6	24	37	+55%
3	Dubai	321	5,548.7	16	17	+6%
4	Hong Kong	272	6,210.5	21	11	-48%
5	Dublin	232	3,522.7	6	21	+286%
6	Shanghai	231	7,941.1	18	9	-53%
7	Paris	197	1,317.8	4	10	+144%
8	Amsterdam	158	1,890.6	5	17	+230%
9	Sydney	122	2,594.9	5	8	+43%
10	New York City (NY)	110	1,205.7	2	11	+367%
11	Melbourne	106	1,659.3	4	10	+129%
12	Barcelona	91	1,044.8	4	9	+119%
13	Madrid	86	1,341.7	1	8	+520%
14	San Francisco (CA)	85	795.4	2	5	+200%
15	Copenhagen	79	594.3	9	5	-44%
16	Beijing	72	3,324.3	6	1	-92%
17	Berlin	69	766.7	2	5	+233%
18	Atlanta (GA)	69	393.3	4	6	+60%
19	Boston (MA)	66	499.6	1	7	+800%
20	Sao Paulo	61	852.1	3	4	+50%

Source: London & Partners/Centre for London analysis of fDi Intelligence data, from the Financial Times Ltd 2019

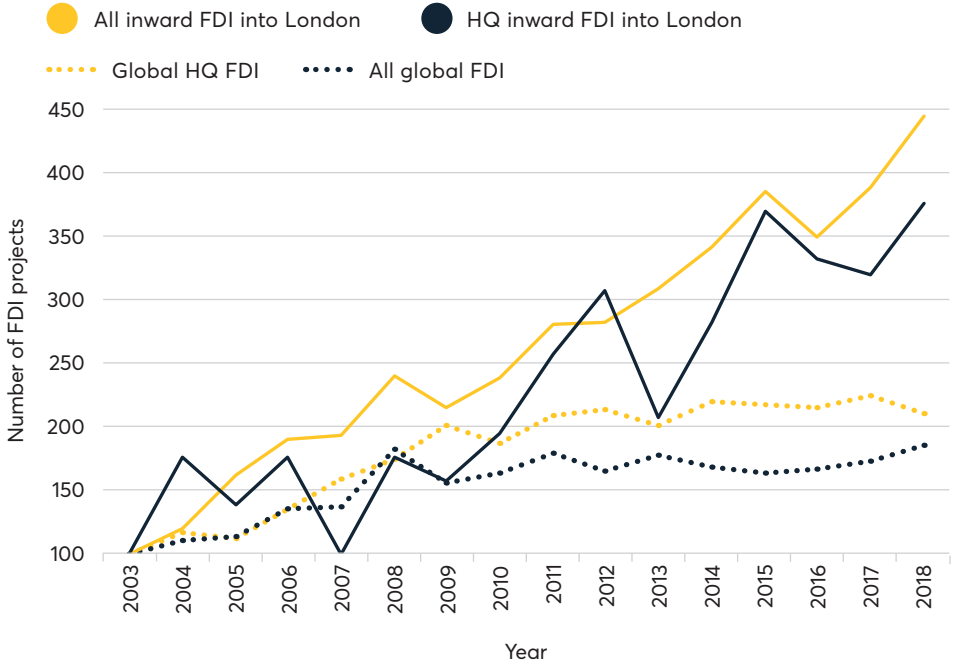
Table 2: Top 10 Western European regions for FDI HQ investment, 2003-2018 (3763 projects)*

Rank	Destination region	Number of HQ FDI projects	Share of HQ FDI into Western Europe
1	Wider South East	772	20.5%
	~Of which Greater London	586	15.6%
2	Ile-de-France	271	7.2%
3	Dublin	248	6.6%
4	Amsterdam-Rotterdam (Nord-Holland, Zuid-Holland, Utrecht)	245	6.5%
5	Barcelona	139	3.7%
6	Dusseldorf-Cologne	129	3.4%
7	Copenhagen-Malmo (Hovedstaden-Skane)	107	2.8%
8	Madrid	101	2.7%
9	Darmstadt-Frankfurt	85	2.3%
10	Berlin	69	1.8%
	Other Western European Regions	1597	42%

* 3% of the sample did not have any information on destination region

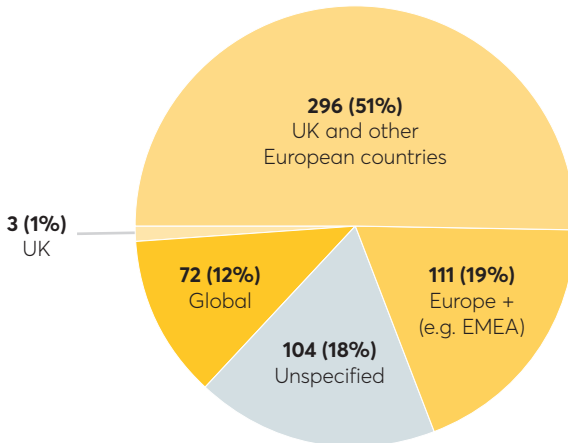
Source: London & Partners/Centre for London analysis of fDi Intelligence data, from the Financial Times Ltd 2019

Figure 4: Number of FDI projects, London and the world (rebased, 2003 = 100)



Source: London & Partners/Centre for London analysis of fDi Intelligence data, from the Financial Times Ltd 2019

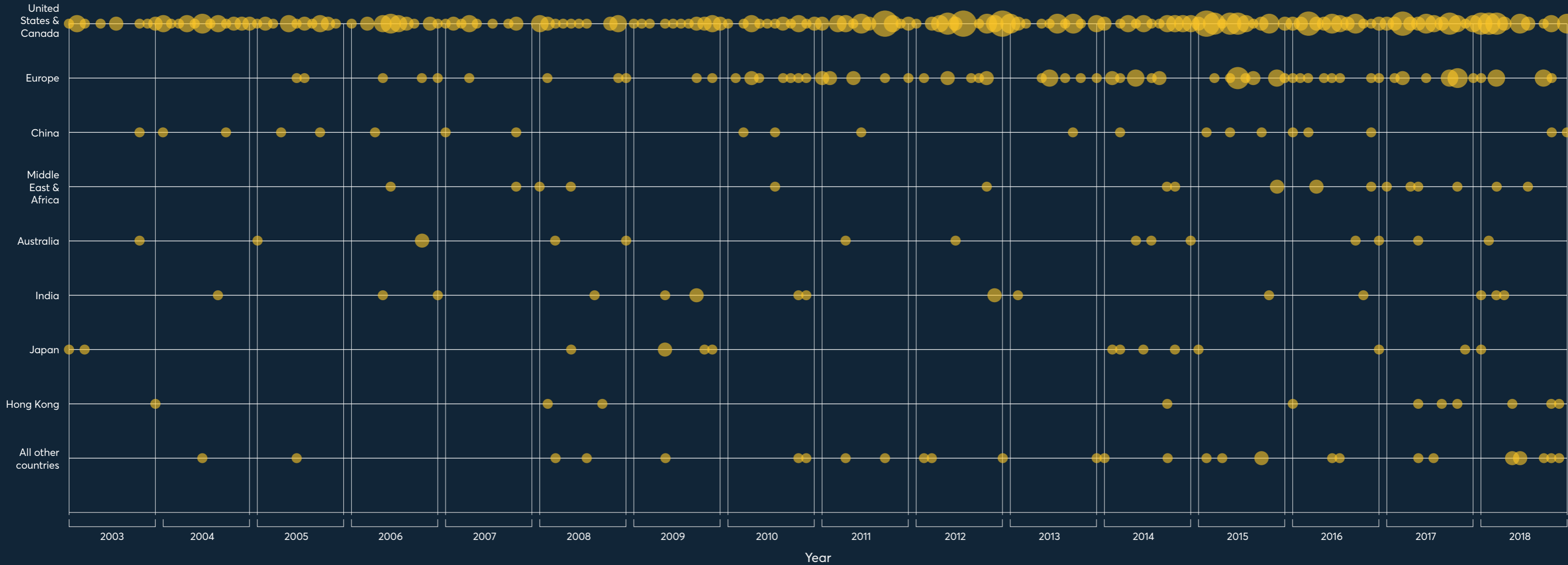
Figure 5: Markets served by FDI HQ investments into London since 2003



Source: London & Partners/Centre for London analysis of fDi Intelligence data, from the Financial Times Ltd 2019

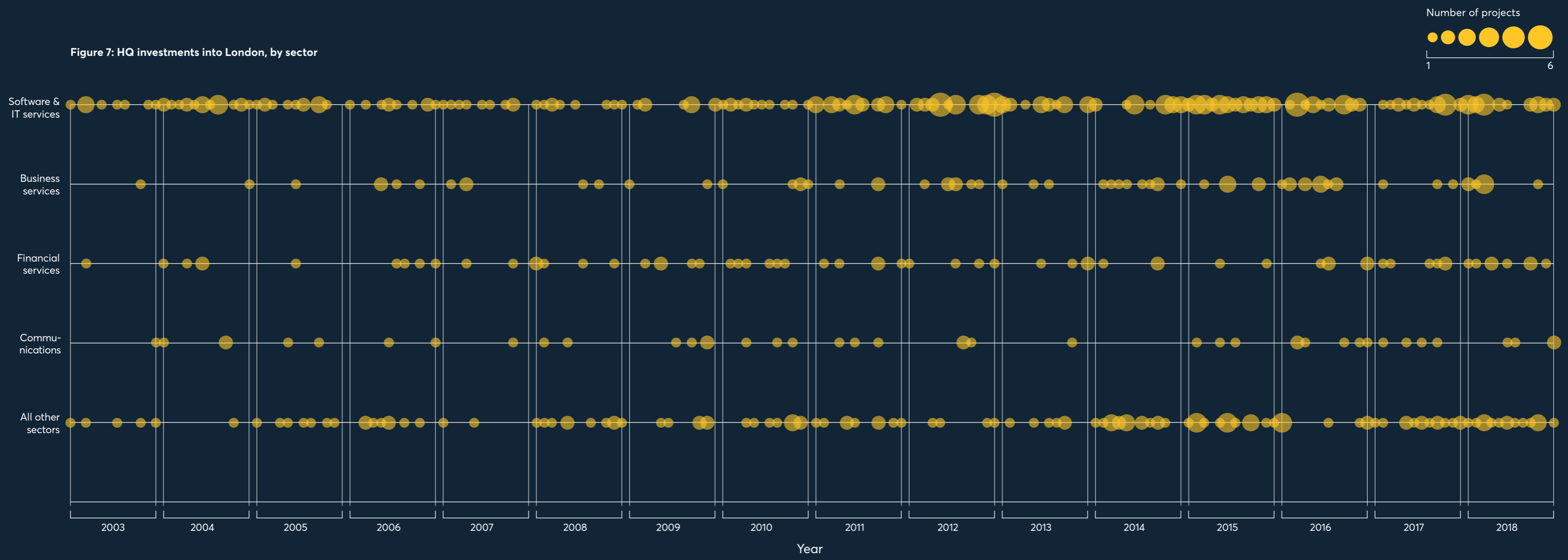
Figure 6: HQ investments into London, by source

London has been particularly attractive to US-based companies, though the data in Figure 6 shows increasing diversity in the source of HQ investment into London. European investments have gained importance since 2003 (one interviewee's interpretation was that European companies have been increasingly using the UK as a "launchpad" to develop business outside Europe). Companies based outside Europe and North America also make up a growing share of HQ investments, albeit starting from a low base: these accounted for 25 per cent of HQ investments in the last five years, compared to 20 per cent in 2003-07.



Source: London & Partners/Centre for London analysis of fDi Intelligence data, from the Financial Times Ltd 2019

Figure 7: HQ investments into London, by sector



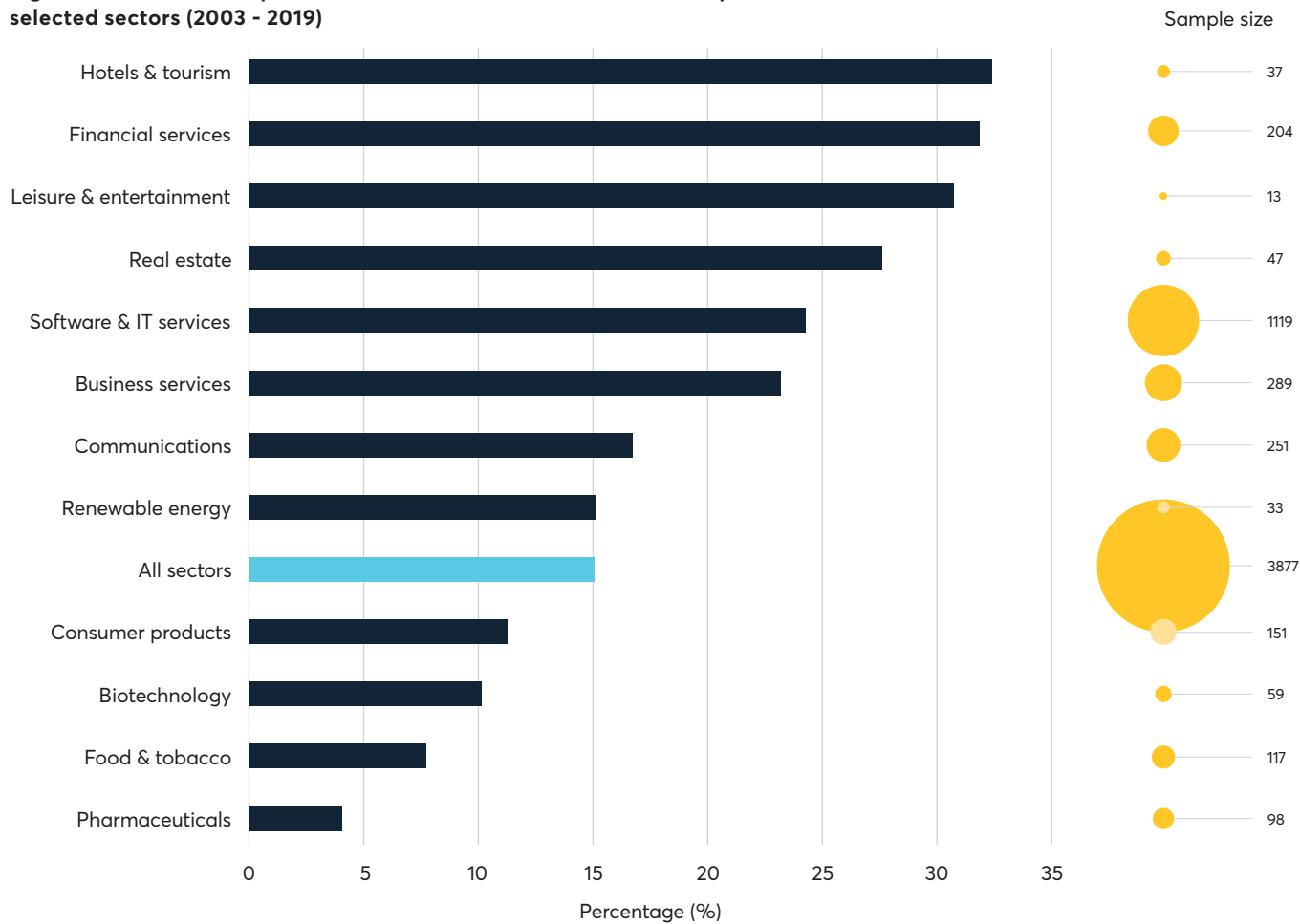
Source: London & Partners/Centre for London analysis of fDi Intelligence data, from the Financial Times Ltd 2019

Table 3: HQ investments into London, by source

Country/ Region	Number of projects			Country/region share		
	2003-2007	2008-2012	2013-2018	2003-2007	2008-2012	2013-2018
United States	80	104	152	71%	59%	51%
Canada	4	7	16	4%	4%	5%
Europe	6	29	58	5%	16%	19%
China	8	3	10	7%	2%	3%
Middle East & Africa	2	4	13	2%	2%	4%
Australia	4	4	9	4%	2%	3%
India	3	8	6	3%	5%	2%
Japan	2	5	8	2%	3%	3%
Hong Kong	1	2	8	1%	1%	3%
All other countries	2	10	18	2%	6%	6%

Source: London & Partners/Centre for London analysis of fDi Intelligence data, from the Financial Times Ltd 2019

Figure 8: London's HQ specialisms: London's share of Western Europe FDI HQ investments, for selected sectors (2003 - 2019)



Source: London & Partners/Centre for London analysis of fDi Intelligence data, from the Financial Times Ltd 2019

Risks of complacency?

These statistics tell a strong story: London hosts 55 per cent of the world's largest companies' European HQs, and attracts a fifth of Western Europe's new investment in HQ projects. But whilst these figures may inspire confidence, they only show a partial picture, and should not act as a pretext for complacency.

First, the 2018 Deloitte study reveals that three-fifths of the Fortune Global 500 top companies do not have European headquarters – though this does not necessarily mean that they don't have a European presence. London is a hub for Europe, and to some extent for the world, but fast-expanding markets are not in Europe and it would make sense if the governance of multinational companies were to shift to the East.

Second, the data carry mixed messages for other UK cities. Only three of the 117 European headquarters of Fortune Global 500 companies are in areas of the UK outside the Wider South East (two are in the Midlands, one is in the North). That said, the fDi data show that Greater Manchester and the West Midlands are in the 20 Western European “regions” that attract the most HQ projects – and still performed better than Brussels, Stockholm or Milan between 2003 and 2018.

Third, it is worth noting that another database of HQ investment analysed by EY records a marked fall in the number of HQ investment projects into the UK, after peaking in 2015. The FT's FDI data, which we use in this report, does not record such a marked fall for the UK as a whole, but does suggest a slowdown in growth.³⁶

Finally, the most recent figures for business visitors to London suggest that the city may be on the brink of less buoyant conditions for the first time since 2009. According to ONS estimates, business visits and business spend in London both fell by 5 per cent between 2015 and 2017, their first fall since 2009 – and the first three quarters of 2018 show this trend continuing.

Will the outsized contribution of HQ activities to the city's growth continue? Confident voices mention London's long history as a centre of corporate power and control, while others remember London before its urban

and economic “renaissance”, and refuse to take the city’s attractiveness for HQs as a given.

To understand how London’s position might change, and the implications of this, we need to investigate the reasons behind the rise of London as an “HQ city” and what impact the presence of HQs has on the city’s economy.

Investigating HQs

This report charts the rise of the HQ economy in London and provides a framework for understanding the value, as well as the challenges, that HQs bring to the capital. How are headquarter functions changing? Are the criteria for their location changing too? Will HQs become a durable engine of growth for the city? Where are London’s long-term strengths and vulnerabilities, and what can be done to address these?

We draw on a mixed methods approach to answer these questions, including:

- A literature review of the HQ economy, its benefits and costs, and how strategic corporate decisions are made.
- Quantitative data on London’s position as a global HQ centre, using foreign direct investment metrics.
- Qualitative data from 25 research interviews with advisers on HQ decisions (in business consulting, real estate and investment agencies in London) and senior executives of London headquarter companies, to gain insight into how companies see their headquarter functions changing and what influences their global location. All but two of our interviews were with London-based professionals – the remainder were with Paris-based organisations.

Chapter 1 defines HQ functions and describes how these are changing; **Chapter 2** summarises the value and the challenges that HQs present to global cities; **Chapter 3** delves into the criteria companies use in making HQ

location decisions; **Chapter 4** looks at the strengths and weaknesses of London's position against these criteria; and **Chapter 5** charts the implications for London's policymakers and business leaders.

1.

What is an HQ?

An introduction to HQs

This report focuses primarily on the global or regional HQs of multinational corporations (MNCs) – although domestic companies, startups and scaleups also have corporate headquarters, and make important decisions about where to locate them. But what do HQs do?

The nature of a head office can be difficult to define, due to the variety of functions, size and scale in different companies and sectors. As one 2003 study put it: ‘To some extent, the head office remains a “black box”’.³⁷ However, there are some commonalities: head offices host the “brain functions”, or the core management functions of a business. Beyond this, the variety and nature of other functions that are co-located in the same physical space can vary tremendously. An HQ is not always the largest office in terms of staff numbers or floor area, but is generally home to executive management and some cross-business administrative functions.

Research for the British Council for Offices observed and defined three main roles played by corporate HQs: *governance* (taxation, treasury and audit functions); *shared services* (cross-company administrative, human resources, corporate real estate and information technology functions); and *strategy setting* (business development, research and development, and the overall direction of the company).³⁸ This builds on a similar categorisation developed by Jacobsen and Onsager, who defined the three roles as strategy, coordination, and control and policy.³⁹ Regional headquarters (RHQs) of MNCs can be further subdivided into those playing either an “entrepreneurial” or an “administrative” role – either actively seeking out new talent and opportunities, or performing a command, control and coordination function.⁴⁰

These three main central functions can be combined in different ways. In 2007, management consultants Booz and Co highlighted three models for the modern HQ:

1. **Governance Guardian** – providing the basic essentials of overseeing a large, international company, including audit, legal compliance and other related functions.
2. **Advantage Accelerator** – actively assisting with the particular specialism (or “advantage”) of the business, strengthening links between parts of the business, or overseeing strategy across the entire business.
3. **Scale Economiser** – managing shared services for all parts of the business in order to reap the benefits of providing services at scale.⁴¹

All three of these models exist within London – alongside combinations of more than one.

There is a wide ranging literature on the function, scale and evolving nature of international HQs. In fact, the breadth of the academic literature on this topic reflects the breadth and diversity of head offices themselves, both in terms of size and function.⁴² Some co-locate with other parts of the business – from investment banks housing their head office staff in the same building as trading floors, to big global tech firms that build large campus-style HQs with little spatial distinction between employees of all levels and roles. Others pursue a “hub and spoke” model, seeking to minimise take-up of expensive city centre space with a slimmed-down HQ – and as many business functions located outside the city, or even the country, as possible.

Some “headquarters” are essentially brass plaques in locations chosen for tax reasons, supported by the smallest possible number of staff – a process described as “corporate inversion”.⁴³ However, there is a backlash against this practice, with more governments demanding that “substance” (i.e. senior staff and some degree of

operations) accompany an HQ in a bid to clamp down on tax avoidance.⁴⁴ To provide an example, in August 2016 the European Commission found that the Irish government had “granted undue tax benefits of up to €13 billion to Apple” by allowing it to attribute almost all of its European sales to its head office, which it found to have “existed only on paper”. This amounted to a breach of EU state aid rules, and Ireland was instructed to recover the lost revenue.⁴⁵ The European Central Bank has also warned UK based banks and other financial institutions that they will need “substance locally” to operate from within the EU post-Brexit: “In other words, there cannot be empty shells or letter box banks”.⁴⁶ The Bank of England has a similar policy in respect of operations in the UK.

The literature reflects that there is no one kind of corporate headquarters, either in London or globally. There is also great diversity in how HQ scale and functions have changed in different sectors, and even within different companies. However, there are some common themes, to which we now turn.

The evolution of the HQ

The corporate HQ of today is certainly different to that of the early 20th century. Notwithstanding variation between sectors and companies, there is a broad trend of transformation – from the “corporate temple” to the flexible, collaborative HQ space of today.

Historic HQ: Corporate temple

The HQs of yesterday were huge, highly visible and housed entire companies’ central management and administrative functions. As one real estate consultant interviewed for this report put it, this traditional HQ was home to a huge range of functions, “from ordering stationery to setting strategy”.⁴⁷ HQs built on the “corporate temple” model were designed to project a symbol of corporate power to the outside world, and were often heavily branded. Inside, office space was compartmentalised and hierarchical, with progression

towards the upper tiers of management often mirrored by a matching promotion in the office space itself. “Going up in the world” often meant literally moving up the floors of the building, towards the higher floor offices of C-suite executives and the boardroom.

The corporate temple model was soon expanded upwards, with the co-location of head office and other functions continuing. The New York skyscraper model was later replicated in London – first with the City’s Natwest Tower and subsequently at Canary Wharf, where entire towers could be occupied by one company (albeit co-located with trading floors and other non-head office functions).



Historic HQ: Shell, London

Credit: Steve Keiretsu

Modern HQ: Collaborator

Today's head office spaces reflect changing patterns of work. Flexibility and collaboration are much higher priorities, and the distinctions between functions and seniority levels are reducing. A more transient and flexible workforce, who in turn expect more flexible working hours and locations, are accommodated in open plan layouts and shared spaces designed to encourage chance encounters and innovation. Whilst traditional "head office" functions may be slimming down, HQs are more likely to make room for incubator space and experimental "skunkworks" – with large companies providing space for startups and "disruptors" in order to capture new innovations before their rivals.⁴⁸



Modern HQ: Bloomberg, London

Credit: Karthik Nagarajan

The projection of a corporate brand is still important, although it has changed in nature – being targeted as much at attracting and retaining talent as it is at consumers. Lifestyle offerings – from gyms and cafés to games and even slides⁴⁹ – are becoming more prevalent, and are designed to lure workers into the office, further encouraging creativity, socialising

and collaboration.⁵⁰ Alongside the emphasis on staff experience, the experience of visiting clients is also increasingly important to the modern corporate HQ.

The HQs of tomorrow

What will the HQ of the future look like? Interviews with management consultants, real estate agents and other “brokers” who deal with HQ decisions in London – alongside desk-based research – suggests that there may be three models for the future. Based on existing trends, these can be described as the *consolidated*, the *slimlined* and the *scattered* HQ.

The 'consolidated' HQ model is mainly being pursued by large technology companies; whilst relatively few in number, they are likely to have a significant impact on job numbers in London. The 'slimlined' HQ model is becoming the 'corporate norm' across most sectors in the city, and whilst the numbers directly employed in this model are lower, their continued presence in London also has a major collective influence on high-skilled, high-wage employment. The 'scattered' model can see multiple HQs in different cities or nations, focusing on different specific head office functions.

All three models are likely to be open plan. As much as three-quarters of space in future headquarter buildings is expected to be “collaborative”, according to the British Council of Offices.⁵¹ One real estate figure predicted that the HQs of tomorrow will be “smaller, but much more interconnected”, with open meeting spaces “like a hotel lobby” throughout.⁵² Modern HQs are looking “more like a film set or a sound stage” than a traditional office set-up, according to another consultant.⁵³ Whilst there are differences in the degree to which this is manifesting itself across different sectors – with digital and tech companies more enthusiastic than legal or business services, for example – overall, “every business sector has changed in that way, to some extent”.⁵⁴ An increasing focus on staff health and wellbeing is also both currently observable and predicted to continue.⁵⁵

Model 1: Consolidated HQ

Amongst some sectors – particularly the largest multinational tech and digital companies – there is a tendency toward larger, more multi-function HQs. This trend has been seen in the United States (see Chapter 3 for Amazon’s HQ2 case study), but is also emerging in London. Google’s upcoming King’s Cross “groundscraper” HQ, for example, is designed to house several thousand employees,⁵⁶ and Apple’s planned Battersea HQ is intended to consolidate 1,400 London-based staff into one location.⁵⁷ These are similar in some senses to the old “corporate temple” HQs. However, whilst the large, attention-grabbing HQs on this model house high numbers of employees, they tend towards co-locating senior executives alongside a broader range of skilled workers in flexible, open plan workspaces throughout, rather than providing a spatial hierarchy to reflect seniority.

These large scale consolidated HQ moves were described by one management consultant as “going out on a limb” in the London context, but enabling the firms to recruit “the best people in Europe”.⁵⁸ Capturing a large consolidated HQ clearly has a sizeable direct impact on employment in London, and can make for a powerful negotiating tool on the part of an MNC. However, there are also other, smaller-scale examples of the consolidated HQ – for example, in the games and interactive entertainment industry, where studios and head office functions are often co-located.⁵⁹ This is also often true of startups, where it is a product of scale and the number of staff employed rather than active decisions over co-location.

Model 2: Slimlined HQ

Whilst tech and digital HQs are becoming increasingly open and multi-functional, other sectors are seeing a “slimming down” of their head offices. Retailers, business services and other non-tech sector companies are reducing their footprints in city centres to cut costs. Only the governance essentials are remaining in expensive city centre locations, with all possible functions moved to cheaper locations beyond.⁶⁰

This is not an entirely new phenomenon – one 2003 study noted an increasing tendency towards decentralisation of authority within large companies, with an associated increase in complexity of governance.⁶¹ However, rising property and associated costs in city centres could see this model accelerate, with companies seeking to strip head office functions down as far as possible, outsourcing to locations with cheaper property and labour costs. This may mean “near-shoring” functions to UK regions, or moving them overseas to cheaper locations. One real estate company told us that their clients were now frequently asking them: “How few roles can we have in London?”⁶²

The slimlined HQ model also has a strong emphasis on staff and client experience, sharing many qualities with the consolidated HQ model in terms of interior layout and the importance of projecting a modern corporate image. A city centre location remains important for attracting, accessing and impressing clients. Attracting top talent also remains important, even if the numbers are smaller and more focused on “elite” roles. The “slimlined” HQ may only employ a relatively small number of senior staff, but its indirect effect on related jobs means that it remains valuable for a city such as London to capture. Ultimately, the slimlined corporate HQ is moving towards being what one real estate consultant described as “headcount light, brand heavy”.⁶³

Model 3: Scattered HQ

The increasingly complex, internationalised nature of large companies has also seen a third model of head office emerge: the “scattered” HQ. This model sees traditional head office functions, from human resources to marketing, split into separate locations – each of which could be seen as the “headquarters” of that particular function. Whilst these locations may not feature a “brass plaque” that declares a global or regional HQ, they may concentrate particular functions for an entire region. The scattered HQ can therefore be a great asset to its host city or location, directly

providing a significant number of highly paid, high-skilled jobs. The LEGO Group provides an example: officially headquartered in Billund, Denmark, where over 2,000 employees work, LEGO's main office in London also employs over 200 people, providing the company's global HR function alongside other UK-focused functions.⁶⁴

HQs and city centres

Regardless of the model, it seems clear that most MNCs will continue to retain a presence in, or close to, the centres of large metropolitan areas. In 2017, it was noted that corporate HQs were “disproportionately concentrated in metropolitan areas”, both in developed and emerging economies.⁶⁵ And academics have long defined “global cities” on the basis of the presence of “transnational corporate or multinational firm headquarters”.⁶⁶

This continuing preference for urban locations appears to relate primarily to the access provided by large cities to wider talent pools. Regardless of whether head office functions are consolidated, or stripped to the bare bones of C-suite executives (reaping the benefits of what one interviewee described as “elite clustering”),⁶⁷ city centre locations allow broader and deeper talent pools for recruitment at all levels.

You still have a lot of “legacy HQs”, but in terms of real estate transactions, the functions that are taking high quality real estate in the centre of London now are tending to focus on innovation, client experience, and to a degree, staff experience. They are moving towards high quality real estate, and ever more to cities.

Real estate consultant

Recent years have seen companies such as Amazon, Novartis and Kraft Heinz vacate sites in the Thames Valley, Surrey and Hayes, and move to central London – primarily in the pursuit of talented

workers who are increasingly drawn to the cultural and social advantages of urban living.⁶⁸ These factors tend towards bringing a company's entire operation into one location, with numbers (but not necessarily floorspace) increasing.⁶⁹ Proximity to relevant centres of excellence and innovation also brings benefits – it is no coincidence that Google's HQ is located in King's Cross, at the heart of the Knowledge Quarter innovation district.⁷⁰ Proximity to universities, relevant sector hubs and other magnets for skilled workers also makes city centres ever-attractive as HQ locations – so whatever the nature of a company's future head office, there is good reason to believe that it will be located in a city centre.

2.

**How do
headquarters
affect cities?**

Head office functions are rarely singled out when firms think about their local economic impact – partly because the functions vary greatly from one business to another, so are not easily distinguished from other areas of activity. However, as this chapter outlines, HQ functions have significant and particular impacts – not all positive – on cities.

The perceived value of HQ investments is reflected in US cities' willingness to subsidise multinational companies to attract head offices within their jurisdiction. One notable example was Amazon's HQ2 competition, a rare public bidding process that revealed the vast incentives (worth up to \$7.5 billion) urban governments across the US were willing to offer Amazon in order to host its second HQ. Of course, the sheer growth of Amazon and the related functions that come with its head office make this an exceptional case. But the case study is interesting in the light it shone on competing offers; in raising the question of whether the economic and social returns of attracting corporate headquarters were worth the subsidy; and in prompting debate about how negative impacts should be mitigated.

This chapter summarises evidence on the impacts of corporate headquarters on city economies like London.

Foreign direct investment

Head office functions and professional services have been a major source of inward investment for London. 10 per cent of foreign direct investment (FDI) projects in London between 2003 and early 2019 were for headquarters projects, and a further 30 per cent were for "business services", most of which serve or are related to HQ functions. We do not yet fully understand how these investments create economic benefits for other parts of the country, but London & Partners have found that 12 per cent of FDI projects (not HQ-specific) in the rest of the UK were made after a first investment was made in London.⁷¹

Job creators

Headquarter employment can create lots of non-HQ related jobs. US cities vying for HQ investments argue that HQ jobs are “multiplier” jobs for city economies. This is often the case within firms: however small strategic decision-making teams are, they will usually work closely with support staff and are likely to locate with them. It is also the case outside the company, as highly paid employees indirectly stimulate job creation in other sectors through their consumption – for instance, it is often said that London’s restaurant boom owes much to the increase in the number of high earning Londoners. Amazon’s own estimates say they created 1.3 jobs indirectly in Seattle for each direct Amazon hire (see Appendix 1), and Economist Enrico Moretti cites multipliers of between two and four indirect jobs per HQ job created, depending on the sector and local unemployment rates.⁷²

The value of agglomeration

Headcount is not the whole story. HQ-related jobs are also “good jobs” for city economies: because other companies seek to interact with decision makers in the HQ, but also because HQ jobs are often highly paid, high-value-added activities, which raise productivity and attract people to the city who at some point will move on to another firm or create their own. So having a pool of “strategic” and “entrepreneurial” talent in London ultimately supports and fosters a whole ecosystem of businesses – with firms able to hire more easily, and also benefiting from less tangible “spillover” benefits. Whether multinationals incentivise or stifle innovation in their sector is a hotly debated issue and varies across sectors, but at a minimum HQs “anchor” business by creating demand throughout their value chains, and investment in related sectors. It is often said that London’s dominance in financial services (including asset management) means that there is venture capital available to startups and scaleups, making London a great place to launch a new business. Venture capital investment figures confirm this.⁷³

Charitable giving

Corporate headquarters are also drivers of charitable donations. Enrico Moretti and colleagues from the University of California, Berkeley studied the relationship between HQ implantation and giving over a 15 year period in 147 US cities. Their analysis suggests that “attracting or retaining the headquarters of an average firm yields approximately \$10 million per year in contributions to local non-profits, while the headquarters of a larger firm (one ranked among the top 1000 in total market value) yields about \$25 million per year.” They also found that charitable giving increased when firms headquartered in a city gained market value: “Each \$1000 increase in the market value of the firms headquartered in a city yields 70 cents or more to local non-profits.” Interestingly, most of the increase in charitable giving arose from individuals rather than corporate giving: this suggests that successful companies didn’t necessarily give more generously to the city where they were headquartered, but their employees tended to do so.

Visitor economy

While headquarters may be slimmer today in terms of staff numbers, they continue to draw visitors in great numbers. Strategic functions thrive on face-to-face contact, and headquarters are the natural place of convening: they host client, board and team meetings, as well as internal and public-facing events. Each attracts business visits, often from overseas. The head of a large investment bank told us:

The extra value of an HQ is the visitor economy. It is a massive multiplier on the headcount. I'd be surprised if on a quiet day we have less than 30 visitors a day travelling in from abroad. Some days, it's several hundreds.

Director, large investment bank

Corporate influence and soft power

Multinationals play an outsized role in the world economy. They account for only two per cent of the world's jobs – but they own or orchestrate supply chains that account for over 50 per cent of world trade, make up 40 per cent of the value of the West's stock markets, and own most of the world's intellectual property.⁷⁴ Again, the impact of an HQ on a local economy does not merely derive from the headcount as such, but rather having the strategic decision makers located there – contributing to the city's reputation and making it a key marketplace for service providers and competitors.

Tax revenue

Headquarters generate tax revenue for city and national government, including property taxes, income tax, and taxes on other sales, assets and profits. Those taxes that are tied to a location are easily measured – those that aren't are much more complex to estimate, especially given that multinationals often have hundreds of legal entities, some based in tax havens. Some of this tax revenue is indirect, as workers are also consumers of taxed goods and services.

The “other side of the coin”

It is tempting to think that the cities and countries where multinational companies are headquartered have it all – the “good jobs”, the agglomeration benefits, the boost to corporate giving, and all the derived benefits highlighted above. But there is a growing perception that the HQ economy can be a mixed blessing – or even a curse.

The more longstanding criticism is overtax avoidance – that global companies don't pay enough taxes on foreign profits. US estimates suggest multinational companies pay a tax rate of about 10 per cent on foreign profits,⁷⁵ though the EU is cracking down on member states that have struck bespoke tax deals with multinationals.

A second concern is the additional pressure on the cost of living. One of the campaigners' rallying arguments against the proposed Amazon HQ in the Queens area of New York City was that it would result in an “onslaught”

of high earners able to outbid residents with average incomes in the housing market. A study by US real estate website Zillow added some evidence to those fears: it forecast that some cities (Los Angeles, Denver) would see median rents rise twice as fast in the coming decade if Amazon were to pick them for their second HQ.⁷⁶ That said, Zillow's model suggested that the capacity of cities to accommodate a growth in headquarters employment varied greatly depending on their capacity to increase housing stock to respond to additional demand.

This argument against headquarters has mostly taken root in US cities so far, where it is strengthened by specific issues about public budgets being used to subsidise large private corporations rather than mitigate the costs associated with their growth, from congestion to inflation, especially in cities under-prepared to host. But it is not a feeling that London is immune to.

A third concern is about rising inequality. Pay growth has been greater at the top of the income scale – in 2014, Economist Thomas Piketty and colleagues found that the share of UK income going to the top one per cent and 0.1 per cent of taxpayers in the UK has increased since 1990, respectively from eight per cent to 10 per cent and from two per cent to four per cent.⁷⁷ Strategic corporate roles tend to be performed by senior executives, and in as much as HQs house a lot of employees on high incomes, they may be exacerbating this trend. Some argue that high income inequality can be detrimental to economic growth and to society if it is not properly managed. The OECD has published a short briefing on this issue.⁷⁸

Finally, HQs and related functions can have negative effects on local firms' ability to recruit. In sectors where multinationals have enough market power to suck in local talent, the arrival of a "consolidated HQ" may create a skills deficit, if multinational corporations are able to outprice local firms on the labour market, starving them of the best talent.⁷⁹ This becomes a particular issue when skills provision or immigration policy is not responsive to sudden increases in the demand for specific skills.

Headquarters create investment and well-compensated jobs, but a lot more besides – visitors, tax revenue, donations, reputation. Agglomeration boosts the impact of HQs, as related industries coalesce and attract talent. Slimmer headquarters housing more high earners concentrate the impact of the HQ economy, meaning that attracting headquarters has become an even higher stakes game. This is certainly the case for technology multinationals, some of which have seen huge growth in sales and profits recently.⁸⁰ Of course, city scale matters here – a headquarters that would be a major “anchor” business in a mid-size city may be only one of many players in the London or New York economy. But policymakers should also be aware of the downsides of HQ investments, and the costs that may need to be mitigated – which in turn may call into question the value of using public funds to subsidise HQ investments.

3.

**What factors
influence HQ
location?**

What do businesses consider when choosing a location for their HQ? The scope of HQs varies and continues to change,⁸¹ but a range of themes that affect corporate decision-making on location can be identified in the existing research literature. This chapter surveys this literature and the recent Amazon HQ2 case study, combining insights from these with the findings of our interviews to posit 20 “pillars” of city competitiveness.

Existing research has highlighted a number of factors as influential in HQ location decisions. Access to capital markets, favourable legal and regulatory regimes,⁸² proximity to customers, and the role of agglomeration economies (i.e. the geographic clustering of industries and firms which serve to facilitate business) have all been cited as influencing where firms choose to locate.⁸³ The “connectivity” of a global city (which includes everything that can facilitate the effective flow of people, services and knowledge) has also been shown to influence HQ location decisions, particularly for businesses in knowledgeintensive industries.⁸⁴ Other factors such as language, time zone, regulatory and business environment, and simple geography can affect the ease of operation in a particular location. “Softer” factors such as culture, nightlife, a strong education system and other lifestyle offerings also play a part.⁸⁵

The latter factors are important not so much in themselves but in their ability to attract and retain talented people. Indeed, interviews undertaken for this report indicate that – while all the factors mentioned in the preceding paragraph are relevant – **access to talent (and the infrastructure that supports it) is the pre-eminent consideration for HQ investments.**

This is reflected in the US example of Amazon’s monumental HQ2 project and the associated bidding war. The HQ2 competition involved North American cities offering Amazon large-scale incentives to invest – something that London is neither able nor inclined to do. However, with the HQ location decision-making process typically shrouded in secrecy, the Amazon example provides a fascinating insight into what companies want from an HQ location, as well as what they claim to be

bringing to the table when they invest. This case study reveals the extent to which access to a skilled workforce has become the single most important factor in HQ location decisions – with fiscal and cash incentives playing a surprisingly less important role, despite their prominence in media debate.

HQ2: A case study in HQ location decision-making

In late 2017, Amazon announced its intention to open a second corporate headquarters, succinctly monikered “HQ2”. This new HQ was to be in a metropolitan area somewhere in North America, complementing Amazon’s existing HQ in Seattle. Amazon claimed that HQ2 was expected to employ 50,000 full-time staff, paid an average of \$100,000, and involve \$5 billion in capital expenditure.⁸⁶ To decide where HQ2 would be located, Amazon issued a “Request for Proposals” to cities across North America.

The subsequent bidding war pitted city against city. City and state governments offered competing packages of tax and other financial incentives, while showcasing other assets. Bids from Crystal City (Arlington, Virginia) and Long Island City (Queens, New York) were eventually selected for two new “HQ2s”. Despite the support of city and state leaders, however, local opposition to the New York project emerged – relating to fears of gentrification, upward pressure on housing costs, and opposition to the level of state subsidy being offered. The company subsequently abandoned its New York plans and settled for Crystal City alone (subsequently renamed “National Landing”).⁸⁷

The whole process demonstrated how keen city leaders across North America were to attract a large corporate HQ to their particular metropolis. Amazon’s “Request for Proposals” document also provides a useful reference outlining the factors that make a potential HQ location attractive to a large MNC (a summary of the relevant section is included in Appendix 2 of this report). But Amazon’s final decision also tells us something about which factors are most important in influencing HQ decisions.

Importantly, the locations originally chosen for the two HQ2 projects mentioned above were not those offering the highest financial incentives. Between the two sites, Amazon was set to receive “performance-based direct incentives” of varying kinds (including cash grants and tax credits from local and state government) amounting to more than \$2 billion. However, an unsuccessful bid from Maryland was reported to be worth as much as \$7.5 billion more than Virginia’s winning offer.⁸⁸ This certainly suggests that non-fiscal factors were more influential in the decision-making process.

Amazon expressed a clear preference for metropolitan locations. But it appears that the primary driver in making this HQ location decision was access to the right people, rather than place in itself. Transport and other connectivity infrastructure was also important, in order to connect people within and between cities – workers, investors, suppliers and partners. As Amazon Founder and CEO Jeff Bezos said when announcing plans for the initial double-location HQ2: “These two locations will allow us to attract world class talent that will help us to continue inventing for customers for years to come.”⁸⁹

Underrated factor: People

Economist Alfred Marshall first identified the benefits to businesses of “agglomeration economies” over 100 years ago. Marshall identified three main benefits that occurred when businesses clustered together in close physical proximity: shared supplier linkages, a shared labour pool, and knowledge spillovers.⁹⁰ In 1997, Economist Frances Cairncross predicted that technological change and the “communication revolution” would bring about the “death of distance”. However, whilst communications technology advances have made instant audiovisual communication across borders possible, this has not led to the decline of the role of place in HQ decision-making. Ultimately, the role of physical proximity has not ceased to matter to businesses, but has instead changed in nature.⁹¹

The tendency towards business clustering has become increasingly about access to a shared pool of skilled workers and knowledge spillovers, rather than proximity to suppliers and customers. Academic studies indicate that this is particularly true of the service sector,⁹² the importance of which to London’s economy is well documented: in 2013, 77 per cent of London’s exports were in services, with the value of services to London’s economy doubling since 2003.⁹³

Interviews for this report with “brokers” – those who advise companies on HQ location decisions – revealed the widespread assessment that access to talent is the number one factor in picking an HQ location. Finding a location that appeals to a modern, skilled and ultimately mobile workforce is therefore essential. As one consultant observed: “HQ decisions are probably 90

per cent about people”.⁹⁴ This can affect the choice of city or country for an HQ location, but is also reflected in moves away from suburban or business park locations and into city centres.

The level of infrastructure, cost of living and quality of life in a city (or surrounding city region) directly influence the extent to which businesses can attract and retain the largest possible pool of skilled workers, and are therefore also important. Openness to immigration, in terms of both regulations and attitudes, is another related factor.

Overrated factor: Taxation and incentives

Media discussion of HQ location decisions often focuses on taxation and business regulation. These issues are often perceived to be a significant – if not the single most important – factor in HQ relocation decisions, even if their impact is downplayed by companies themselves (who are often understandably keen to resist the perception that they are moving their HQ in order to minimise or avoid taxation).^{95,96}

Research has also found that whilst global HQ relocations are relatively rare overall, the main “push” factor when they do occur is often a major shift in fiscal policy or the regulatory environment.⁹⁷ However, while Brexit may free the UK from EU competition and state aid rules, tax consultants interviewed for this report described the UK’s tax system as too “mature” to be likely to see radical change. Ultimately, it is important to remember that taxation is rarely the single most important factor in choosing a location, except in exceptional circumstances: “Don’t let the tax tail wag the dog”.⁹⁸

In fact, it appears that certainty over taxation and the regulatory and business climate is a bigger “pull” factor in HQ location decisions than the level of taxation or subsidy on offer. Another management consultant observed that stability in the tax system had been “a key differentiating point for the UK until the last few years”.⁹⁹ The ability to plan around a predictable and stable system is a clear asset for any business looking to

invest in a particular nation – and especially so when looking at HQ investments. Sudden change can render a location unappealing, leading to relocations in the most extreme cases (as outlined above); and as some of the case studies outlined in the introduction illustrate, the uncertainty about future tax treatment has presented a problem for some overseas firms in London. However, these rules of the game have to change quite significantly to necessitate a move.

20 “pillars” of city competitiveness

In discussions about the relative weight of factors in HQ location decisions, access to talent has been underemphasised, and regulatory elements perhaps overemphasised. However, a wide range of other considerations clearly also comes into play. Many of these additional factors are interrelated, serving to attract both talented people and the HQs that employ them. Some are more important than others, but all warrant consideration.

Informed by a review of the available literature, as well as our interviews with HQ advisers and decision makers across a range of sectors, Centre for London has identified a set of 20 “pillars” that support London’s position – and therefore, presumably, other rival cities’ positions – as a globally competitive location for FDI (and for head offices in particular). The next chapter evaluates how well London is performing on some of these measures, but the list and diagram below establishes a framework for comparing cities’ attractiveness as HQ locations.¹⁰⁰

The factors fall into three overlapping categories:

- **Historic factors** are long-term assets, and often beyond the control of policymakers.
- **Business climate** relates to all factors making the location attractive to business in a wider sense.
- **Talent** includes all factors related to attracting and enabling as large, diverse and skilled a talent pool as possible to access the HQ.

Figure 9: "Pillars" of City Competitiveness

Agglomeration: the strength and variety of multiple business sectors and support functions in a city.

Availability and variety of large buildings; pro-development environment for new buildings.

Culture: museums, galleries, performance venues.

Diversity and tolerance: current reputation for openness.

Diversity of locations: the variety of different sector clusters and office types, costs, sizes and locations on offer.

Domestic transport infrastructure: within and between cities.

Home market: size and strength.

Innovation: universities, innovation districts, R&D.

International transport infrastructure: air and rail.

Internationalism: historic reputation and connectivity around the world.

Language: both main domestic language and variety of languages spoken.

Lifestyle, public services and "liveability": from schools and hospitals to parks and cafes.

Money: access to investors, lenders, money markets.

Nightlife: music venues, pubs and clubs, LGBT+ venues.

Political stability

Regulation and business culture: industrial relations, taxation, and employment laws.

Rule of law: transparency, personal safety, lack of corruption.

Talent pool: both international and domestic, and cost of living (including housing).

Tech infrastructure: broadband, telecommunications.

Time zone and geographical location



The degree of importance of each of these pillars may vary, and as the diagram demonstrates, many are interrelated. But the more of these factors a city can perform strongly in, the better its chance of becoming a successful HQ city.

Inertia: a caveat

Whilst the above factors are clearly important in influencing HQ decisions, it is also worth noting how statistically rare full global HQ relocations are. Even multinational corporations exhibit a bias towards keeping major operations such as head offices in the location in which they began operating, or grew significantly. Property consultants interviewed for this report noted that the process of helping companies find a location for their HQ, whether new or relocating, normally began with using data analysis to find “somewhere that inconveniences the minimum amount of staff”. The preferred location of most senior executives, and particularly the CEO, is often felt to be more influential than any neutral analysis of the relative merits of different cities in different nations. In most business location decisions – albeit not necessarily for head offices – “the average move in the UK is about a mile”.¹⁰¹

Much of this reluctance to change location relates to the fact that “despite the increased mobility of the workforce, actually relatively few people tend to be willing and able to relocate with a company to a different city or country”.¹⁰² Research also suggests that the global workforce is becoming less willing to relocate to another country to work. According to Boston Consulting Group’s survey of workers in 197 countries around the world, the percentage of workers expressing willingness to move overseas declined from 64 per cent in 2014 to 57 per cent by 2018.¹⁰³

Political instability, the rise of populism, shifts in geopolitical power and the rise of emerging economies all appear to have played a part in making a supposedly more mobile global workforce less willing to relocate. However, the Boston Consulting Group survey also found that, whilst the UK has fallen in attractiveness

as a whole, London remains the most attractive city in the world to move to. The next chapter investigates how London is currently perceived as a business centre, and looks at some of the risks to London's status.¹⁰⁴

4.

**What does
London have
to offer?**

London's status as an HQ city is impressive, and the city's HQ economy brings great benefits, as shown in previous chapters. But what makes London such an attractive location for head offices and head office functions – and is this position guaranteed to continue in the future?

London as a leading city

Recent years have seen London settle into a fairly entrenched position at the top table of global cities. Since 2015, JLL has been compiling numerous different “city competitiveness” indices created by consultants, advisers and academics around the world. London was at or near the top of most rankings.¹⁰⁵ In 2017, London was ranked the number one world city across 44 different indices, including strong showings in the areas of infrastructure, transparency and talent.¹⁰⁶

Are people London's next infrastructure challenge?

Real estate advisor

But this success is not guaranteed. The cost of living presents a significant risk to London's offer to talented workers. Affordability is also a significant risk to London's offer to talented workers. The availability of affordable housing, particularly for new graduates, was mentioned as a major challenge in the vast majority of interviews for this report. And London's affordable housing problem has only worsened in recent years: the ratio of median house price to median earnings widened from 8.5:1 to 13:1 over the last ten years.¹⁰⁷

Infrastructure is also lagging behind growth. Crossrail is yet to open, airport expansion is still in the planning stage, and international investors perceive a decline in – or a failure to improve – the UK's transport and logistics infrastructure.¹⁰⁸ But what are those tasked with making HQ location decisions most concerned about today?

The 20 “pillars” and the future

The previous chapter introduced the 20 pillars of HQ city attractiveness. London has all of these 20 factors in place, but some rest on firmer foundations than others. The weakening of a limited number of these pillars may lead to some instability, but no collapse in London’s overall position. However, a tipping point clearly exists, whereby damage to too many would lead to collapse.

In addition, some pillars bear more weight than others, and are therefore more vital to London’s attractiveness. Some are also connected, with their success or failure particularly intertwined with that of others, as the diagram in the previous chapter illustrated. Whilst all 20 factors are important in making London an attractive and successful HQ city, Figures 10, 11 and 12 attempt to rank the relative importance of different factors to London’s continued success. Subsequent graphics evaluate which factors are more “at risk” of being compromised, and whether these represent acute or chronic challenges for London.

Figure 10: The 20 factors of London’s attractiveness to HQs

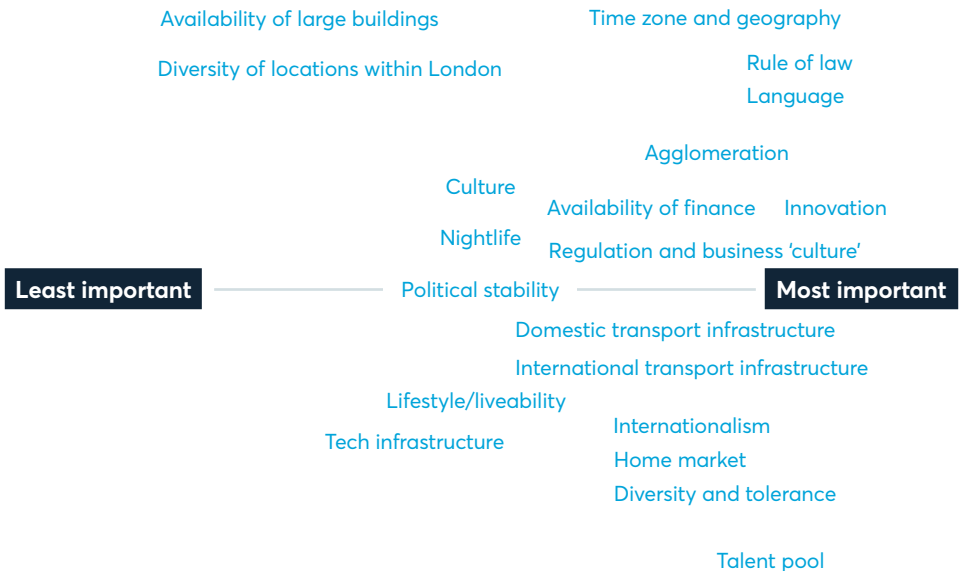
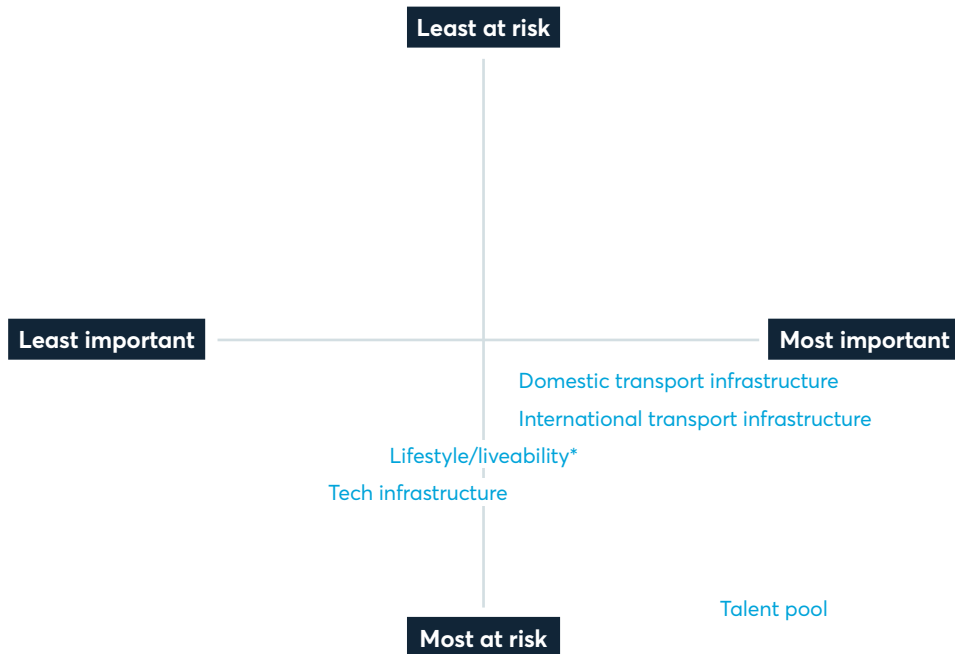
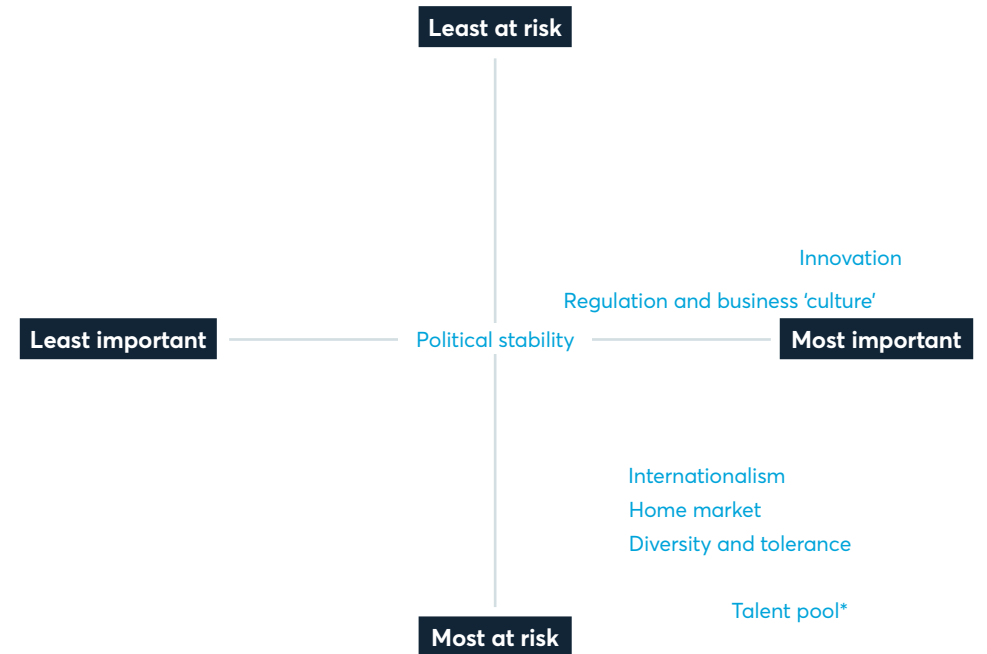


Figure 11: What is at risk? Long-term challenges



*Due to cost of living, particularly housing

Figure 12: What is at risk? Short-term challenges and Brexit risks



Source: FT's FDI data — sample of 175 companies investing in Greater London between 2003 and 2018 + our research interviews

Note: *Political stability* is positioned in the middle of this graph, as opinions differ wildly on how relatively stable or unstable the present UK political situation is, and how long it is likely to endure.

*Due to changing attitudes and regulation regarding immigration

London's top challenges for HQs:

1. **Talent pool:** London's great specialism, but being put at risk due to cost of living, the failure to build enough housing, and the failure to update transport infrastructure to unlock more housing opportunities. In the shorter term, London's talent pool is at risk due to changing attitudes/policies towards immigration.
2. **Liveability:** A strongly related point – at risk due to affordability issues.
3. **Infrastructure:** Whilst transport and tech/digital infrastructure investments are planned, progress is slow and risks are lagging behind international competitors.
4. **Reputation for internationalism, diversity and tolerance:** at risk due to Brexit and the rise of populism.

Openness to talent - at risk

Talent is the most important element by an enormous margin (...) we hear this from UK members, foreign members, companies we speak to abroad – that you can be reasonably confident that you can either find the talent you need here, or you can say to your senior executives that they'll be living in London, and they'll say "great".

Financial services sector representative

Whilst London is rated highly for providing access to skilled workers for international business, both London and New York are comparatively poor at upskilling domestic workers (when compared to other world cities). According to JLL: "London and New York's model relies somewhat more on external talent, and consequently they have a higher share of foreign-born citizens than their peers (35 per cent +)".¹⁰⁹ Tech sector interviewees for this report were unimpressed by the UK education system's teaching of digital literacy, observing a "20 year gap at least" that would require significant progress to plug.¹¹⁰

So London's attractiveness as an HQ location is reliant on the city's welcoming, inclusive attitude to immigration. In 2018, EY found international investor perceptions of the UK's attractiveness to be deteriorating, with over a third of investors expecting things to get worse in the next three years.¹¹¹ However, perceptions of London seem to have decoupled from those of its host nation. The same year, Boston Consulting Group surveyed over 300,000 skilled workers in nearly 200 countries around the world on their views of different work locations. They ultimately concluded that, whilst the UK's international brand had been hit by Brexit, London was able to maintain a distinct and more positive reputation:

From the vantage point of the UK's appeal, it is probably lucky that it has London (the number one city in the world to move to) [...] London's continued popularity suggests that cities can have different and, in some cases, better brands than the countries they're in.¹¹²

With the UK's "brand" declining, London must maintain its welcoming reputation to ensure continued success as a business location, destination for FDI, and ultimately as an HQ city.

Brexit - impact still unclear

Ultimately, our research has suggested that Brexit is by no means the single biggest concern for many of those involved in making HQ decisions. One real estate adviser, reporting the surprising absence of a slowdown in London's real estate market, hypothesised that "if London was dominated by UK companies, it would be a lot worse. There would be a lot less happening."¹¹³

Whilst the ongoing uncertainty surrounding the Brexit negotiations feels destabilising for UK residents, for an investor from Singapore or Canada it may appear a temporary blip, relatively minor and time-limited compared to other potential investment locations.

The true impact of Brexit is difficult to discern from the noise surrounding negotiations – and particularly so as the outcome of the process remains to be seen at the time of writing. In addition, as one real estate adviser observed, the ongoing negotiations are incentivising companies to stress their inclination to leave the UK publicly:

You've got politics at play – you've got perception and reality. Businesses of scale know that if they start to make noises about relocating their HQ functionality, they'll get attention. [A major international bank] have done it three times in their history, and pre-Brexit [...] and the reality is that they've

never actually followed through on that, but rather they've used it – in my view – as a device to get some attention and some sort of audience with decision makers at a higher level. I'd stop short of saying they've used to get any sort of inducements or incentives – there's no evidence for that – but certainly it's been used as a device to engage at a higher level around their business. And what we've got now with Brexit is that whole process on speed. Everybody's thinking about pressing that political button, talking about the need to relocate. But I don't believe that you can dismantle 180-200 years of trading history and financial expertise that the City's accrued overnight. As a business, you just don't want to be away from that ecosystem, that environment, whatever you want to call it.¹¹⁴

Real estate advisor

London's international reputation has created a powerful cluster of businesses from a range of sectors, as well as an equally strong ecosystem of related business services. The scale and diversity of this cluster is such that the highest quality of legal advice, technical expertise and many other services can be accessed easily and at competitive prices. This is not to say that London is invincible – far from it – but that the depth and diversity of its cluster is a notable asset in itself.

I can't imagine us not being here. Because of our clients, the companies that we invest in. Our HQ will not move. The tax picture no longer incentivises you to move. But what will change is the proportion of our business we do in London.

With technology and telepresence, the head office will become the place of

convening, but not the place of doing. If we cannot easily convene here, because of immigration controls, that would be a reason to move. For our HQ the most important is: can you come here easily.

Director, large investment bank

Whilst a sudden mass exodus of HQs from London has not yet materialised, and seems unlikely to do so, contingency planning and the gradual relocation of a limited number of functions and jobs has certainly occurred. This number could easily multiply, and contingency plans could begin to be activated, should the reality – or even the perceptions – of the impact of Brexit worsen. With Paris perhaps the only European city on a scale comparable to London, it seems likely that the collapse of London’s HQ city status would occur in a gradual but still painful fashion, with different business sectors draining jobs to particularly relevant cities – rather than the rapid shock of quickly losing HQs to a single European rival.¹¹⁵

Equally, skilled workers, crucial to business in general but particularly for HQ employment, may start to view London as a less welcoming place to live and work. Yet Brexit is far from the only threat to London’s HQ economy. The cost of living, and particularly of housing, is becoming a major problem. Some companies are even beginning to consider ways to provide their own housing for new employees on graduate salaries.¹¹⁶ With the HQ economy shifting towards the tech and digital sectors, and these sectors becoming more and more reliant on city centre locations, London must address its affordability issues if it is to remain competitive.

5.

Implications

London's position as an 'HQ City' is impressive. It is repeatedly ranked one of the most attractive cities for HQ investment in the world, and multinationals have overwhelmingly chosen London as their European HQ. That said, the nature of corporate HQs is changing, and so are the types of sectors interested in London. The 'consolidated' HQ model pursued by major international tech companies means that capturing an HQ brings a large number of high-skilled, well paid jobs to a city. But even the 'slimlined' head office, home to the bare minimum of decision-makers (and increasingly becoming the norm for modern HQs), still brings huge economic and agglomeration benefits, not to mention the symbolic value of a city's competitiveness. Being an 'HQ City' continues to have huge value for a global city like London.

However, there are causes for concern.

The loss of European regulators, such as the European Medicines Agency and European Banking Authority, represents the most visible and non-negotiable loss of some HQ activity brought about by the UK's vote to leave the European Union. Beyond the direct loss of jobs in London, new HQs will likely attract some of the public affairs activities of financial service and pharmaceutical firms.

And regulatory uncertainty means that businesses - and not just in financial services - are cautious about committing their futures to London. Even if HQs are staying put, new strategic corporate functions may move elsewhere. However, it is hard to quantify the scale of opportunities and potential investments that are being missed.

Perceptions of the UK's attractiveness as a destination for FDI have declined amongst investors, who expect a further decline over the coming years.¹¹⁷ Whilst London appears to be managing to keep a global reputation separate from that of its nation state, there is a clear risk that the city's outward-looking image is being damaged - and previous Centre for London research has highlighted the perils of London's divergence from the rest of the UK. Alongside immigration rules, global

reputation affects a city's ability to attract talented people too: London's agglomeration of businesses and services is dependent upon its ability to do this.

Warning signs

The outcome of the 2016 EU Referendum has not to date led to anything like the exodus of HQs, nor of jobs, predicted by some – although, of course, the United Kingdom is yet to leave the EU at the time of writing. And a sudden exodus of corporate HQs from London to a rival European city is extremely unlikely; corporate inertia plays a significant role in HQ location decisions, and global HQs move country extremely rarely. If London's dominance of multinational corporation HQs were to decline, however, it would more likely be a much more gradual, subtle process, comprising a gradual loss of jobs and even some HQs, alongside the 'missed opportunities' of HQs and global strategic functions that never came to the UK in the first place.

Policymakers at a city and national level concerned with maintaining London's HQ economy should monitor the city's progress as closely as possible, in order to act in a timely and appropriate fashion should it become clear that the city's offer is on the decline. **If London's position as an 'HQ City' were to start to weaken, what signs should policymakers be looking out for?**

- **A decline in the opening of new HQs in London** – whether in total number or the city's share of European, EMEA or global HQs. This could happen because new and scaling company HQs increasingly pick other cities with a more attractive offer.

- **A decline in overall head office employment** would be a warning sign that should be attributed higher priority, as whilst HQs have often been ‘hollowing out’, employment numbers have so far been rising in London. While the impact of HQs extends beyond job-creation, job numbers are a more significant indicator of the strength of an ‘HQ City’ than the location of a brass plaque – although the latter can of course play a role in facilitating the former.
- **A long-term decrease in the number of business visits to London** would also be a useful signal for the weakening of the HQ economy.

Monitoring London’s position is also equally important in helping to avoid over reaction. HQ relocation stories are not only opaque, and fuelled by gossip and rumour, but can in some cases be actively used by businesses to try and leverage access to decision-makers, or gain favourable policy decisions. It is vital that local and national decision-makers are as well informed as possible, to ensure that London avoids both over-reaction and complacency.

Sustaining strength

The strategic priorities for maintaining London’s position can be summarised as:

- Sustaining London’s open, welcoming and international reputation for business.
- Matching this reputation with practical openness to immigration at all skill levels.
- Dealing with London’s affordability pressures – and particularly in the area of housing.
- Maintaining and improving London’s existing infrastructure (digital and physical), as well as its quality of life and cultural offer.

- Improving skills provision for Londoners in the longer term.

These priorities are long-term and complex – but small steps can also be taken to sustain and signal London’s welcoming reputation to business. One example is extending the use of ePassport gates to a greater number of international visitors to the UK, announced in Autumn 2018. From summer 2019 nationals from the United States, Canada, Australia, New Zealand, Japan, Singapore and South Korea will have access to ePassport gates, until now reserved for UK, European Economic Area or Swiss nationals. The government expects that this change will reduce waiting times at the UK border and improve passenger experience for over 6 million international visitors coming into the UK.¹¹⁸ Heathrow Airport’s CEO, John Holland-Kaye said:

We welcome the Government’s announcement that passengers from more countries will be able to use ePassport gates at Heathrow. ePassport gates offer a world-class immigration process and demonstrate that Britain is open for business, whilst keeping Britain’s border secure.

Roles and responsibilities

Few of these objectives can be achieved overnight, or by one agency acting alone. As one management consultant put it, ‘a concerted effort between government, industry and regulators’ is needed to ensure that London retains its position as first choice for HQs, FDI and for business in general. “We need to act offensively, not just defensively... The whole package needs to get better every single year if we want to stay competitive.”¹¹⁹

However there are three main areas for action that appeared to be particularly pressing during the course of this project.

1. Sustain London's reputation for openness

The Mayor of London should continue to project an international image that welcomes overseas business investment and migration. London government should also continue to lobby for an immigration policy that supports London's HQ economy alongside other sectors, and should seek more regional control of immigration policy if this cannot be achieved through national policy.

Another priority for London and national government will be to work together to spearhead improvements in skills provision and education for Londoners, particularly in the area of digital literacy. Universities also play a key role in talent attraction and retention.

National government should preserve the UK's business climate, providing as stable and predictable a tax environment as possible; ensuring that visas are as easy as possible to obtain, at all skill levels (as low skilled jobs support London's vibrancy and attractiveness as a place to live just as high skilled jobs fuel the HQ economy more directly); and maintaining the UK's business friendly climate and labour laws, described by several interviewees as being a 'halfway house' between US and mainland Europe and a major asset to setting up an HQ in the UK.

2. Strengthen and coordinate the promotion of London as an HQ city, while raising ambitions for UK spinoffs

With a shift in perceptions of London's attractiveness highly possible, depending upon the outcome of the Brexit negotiations, investment promotion agencies such as London & Partners will have an important role to play in ensuring the city's reputation and attractiveness to businesses is maintained. To one interviewee, promoting London for investment is much harder work with Brexit: "We definitely get asked a lot more questions". And competition is intense: there are many investment agencies active in London, working on behalf of other countries or foreign cities.

Promotion and partnership

As implied by London & Partners' name, investment promotion needs high-level political and corporate leadership. Together, London's champions should continue to promote London's offer to businesses of all sizes: "It needs to be shouted about, and shouted about by the right people."¹²⁰

London & Partners should also seek to work better with private sector partners. The real estate agents, developers, and providers of professional services we interviewed for this report tend to be contacted first by corporations, before they talk to London & Partners. One interviewee told us:

Every investor needs an accountant, lawyer, bank and maybe a recruitment firm. There is still a lot of mistrust between the sides, ie the private sector does not see the value of involving an investment promotion agency if they can help it. The public sector needs to be easier to work with.¹²¹

And developers have an interest in filling their developments with the world's best companies.

Businesses should work more closely with city government to ensure that the HQ economy's needs are understood; as well as London's relative strengths and weaknesses for small and scaling companies. This would include proactively guiding the public sector as to their future skills, space and business climate needs.

London & Partners should continue to provide support to businesses that consider setting up strategic teams in London. They may also have to grow their teams dedicated to helping retain talent, on issues such as visas and extensions.

London-UK coordination

London's status as a thriving 'HQ City' benefits the entire country. London competes for regional head offices with Paris, Amsterdam, Dublin and Frankfurt – not Preston, Aberdeen, Derby and Felixstowe. London-

headquartered businesses are responsible for 1.9 million UK jobs outside of the capital, or 5.8 per cent of non-London jobs in Britain.¹²²

The government should help to promote its capital to the rest of the world, working with London & Partners to champion London's 'HQ City' role as a strategic asset;

More must be done to promote and retain UK regional 'spin-off' investment from companies that have invested for companies that have invested in London HQ. The government should work to increase investment in the rest of the country by businesses headquartered in London. Ensuring that the opportunities for further inward investment and growth generated by HQs are captured by other UK regions, rather than abroad; should be made a government objective.

London & Partners is well placed to lead the promotion of London. However, comparative research by London First and Deloitte in 2014 found that London and Partners, was 'at the lower end of the funding spectrum', as well as lacking access to softer assets such as advertising or event space that they could offer to clients, which put it at a disadvantage when compared to other cities. This, in turn, made it more difficult for London & Partners to raise private finance to supplement its relatively low public funding.¹²³ This may need reviewing if London's position begins to weaken.

3. Act decisively on housing and transport investment

Cost of living and the quality of infrastructure are not only major issues for Londoners; they also underpin HQ decision-making, and are both areas where London's reputation is at risk. Local government and the Mayor of London should continue to lobby national government for investment in public transport and housing. National government should maintain and enhance international transport infrastructure.

Businesses should also improve efforts to 'give back' to the cities in which they settle, from charitable giving to supporting local employment and businesses. This would include advocating for, supporting and co-

financing solutions to address the issues that constrain London's growth. Businesses could consider new ways to increase the provision of affordable housing for their workers, particularly at entry level – potentially including directly constructing such homes.

London has had considerable success as a hub for headquarters in recent decades, and is set to continue to do so as HQs change. But it is important for London and the UK to work to retain this success. The overwhelming factor in London's favour has been its ability to attract and retain talented people. While Brexit hasn't led to an exodus of businesses for regulatory reasons, London needs to ensure that it can sustain its international reputation as an open city, to lobby for an immigration regime that supports this, and to tackle the chronic problems of housing and infrastructure that risk damaging quality of life in the capital.

Appendices

Appendix 1

Amazon's estimation of the local benefits of its Seattle HQ (HQ1)¹²⁴

Direct:

- 40,000 employees.
- 233,000 annual hotel nights by visiting “Amazonians and guests” (2016 figure).
- \$43 million “paid into the city’s public transportation system as employees’ transportation benefit”.
- 24 restaurants/cafes within the HQ and eight other services.
- \$25.7 billion “compensation to employees”.

Indirect:

- Estimated 53,000 indirectly created jobs as a result of Amazon investment.
- \$38 billion of indirect investment as result of Amazon investment.
- \$17 billion “increase in personal income by non-Amazon employees as a result of Amazon’s direct investments”.
- Increase from 7 (2010) to 31 (2017) Fortune 500 companies with engineering/R&D centres in Seattle.

Appendix 2

Amazon HQ2 location criteria

In inviting bids for HQ2, Amazon expressed a “preference” for:

- “Metropolitan areas with more than one million people”.
- “A stable and business-friendly environment”.
- “Urban or suburban locations with the potential to attract and retain strong technical talent”.

- “Communities that think big and creatively when considering locations and real estate options”.¹²⁵

In addition, the “ideal site” was described as:

- No more than 30 miles to a major “population centre”.
- Within approximately 45 minutes of an international airport.
- No more than two miles from major highways and arterial roads.
- Having access to “mass transit” (“rail, train, subway/metro, bus routes”) at site.

Amazon also provided a list of “key preferences and decision drivers” for their prospective location, including:

- “A stable and business-friendly environment and tax structure”.
- “Incentive programs available for the Project at the state/province and local levels... (i.e. land, site preparation, tax credits/exemptions, relocation grants, workforce grants, utility incentives/grants, permitting, and fee reductions)... the initial cost and ongoing cost of doing business are critical decision drivers”.
- Access to “a significant population centre” with “a highly educated labour pool... and a strong university system”.
- Infrastructure connectivity for both people and goods, and direct connecting flights to Seattle, New York, San Francisco/Bay Area and Washington, D.C.
- A rapid timetable for development permits and zoning laws.
- A “cultural community fit”, consisting of “the presence and support of a diverse population”, supportive local government and high-quality higher education institutions.
- An overall high quality of life offering – “we want to invest in a community where our employees will enjoy living”.
- “Relevant crime data” was also requested.¹²⁶

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 - These figures only capture HQ investments that cross national borders – “foreign direct investments”.
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Amidst all the Brexit noise, it is easy to forget that London is the number one destination for headquarter investment. From tech giants to small UK-born startups, companies are still choosing to locate European or global HQs in London. London's head office employment is booming - even though many firms' corporate cores are being slimmed down through outsourcing and automation.

The report looks at the value, but also the challenges that HQs bring to the capital, and at the risks to London's pre-eminence. How are headquarter functions changing, and are the criteria for their location changing too? Is the HQ economy likely to remain an engine of growth for the city, or does London need to prepare to share the top spot?

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