TECH X THE CITY

ASSESSING AND ACCELERATING THE IMPACT OF THE TECH SECTOR IN THE SQUARE MILE

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CITY OF LONDON
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FOREWORD

Tech and the City are quickly becoming synonymous, a fact borne out by the increasing number of technology, media and telecoms (TMT) and creative occupiers in the Square Mile. The changing nature of the way we work and the way we use office space has been a key feature of the last three research reports conducted jointly by the City of London Corporation and City Property Association (CPA). But until now, we had not drilled down into the impact of tech on a range of sectors, and the implications for the future. The tech workforce is younger, they want more collaborative spaces, and placemaking has become an essential part of the mix, offering leisure, retail and open spaces at a greater and more diverse level than ever before. This is clearly changing the dynamic of the Square Mile for the better.

TMT businesses view the City as their home. They have spilled from the traditional City core to the surrounding fringe and increasingly blur the line between the two. The City has made great strides to attract this audience, investing in world-leading connectivity and pioneering infrastructure. The property industry is absolutely critical to this evolution, and I am delighted that the City of London Corporation is once again partnering with the CPA to explore this important issue.

Tom Sleigh
Deputy chairman, Property Investment Board,
City of London Corporation
UK managing director, Deposit Solutions

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This report was commissioned by the City of London Corporation and the City Property Association.
The research was conducted by Cushman & Wakefield in conjunction with KPMG.
It was written in collaboration with disruptionhub.com.

CULTURE, COMMERCE AND THE CHANGING FACE OF THE CITY OF LONDON

An introduction by **Gerard Grech**, chief executive of Tech City UK

The UK's financial services industry is a global powerhouse, employing around 4% of the country's workforce but generating nearly 12% of its tax revenue. London is at the heart of this. In monetary terms, it's a bigger financial centre than either New York or Tokyo, yet the thousands of businesses that thrive in London do so in a few densely packed areas.

This report concentrates on the historical birthplace of global finance – the City of London. Although the Square Mile is actually 1.12 square miles, the extra area does little to release the incredible pressures constantly exerted on it. Whether that's balancing demand for office space against affordable property or managing cutting-edge architectural innovation in an area equally rich in world-class heritage, the City has always had to adapt to a changing world.

Right now, the pace of that change is furious. A fourth Industrial Revolution is being fuelled by technologies that are blurring the lines between online and physical space. Digital transformation is altering business landscapes so quickly that transport app company Uber is considered to be worth more than transport manufacturer General Motors.

In this era, when Amazon is valued higher than Walmart, the traditional notion that "bigger is better" is being severely tested. At the same time, artificial intelligence (AI) is poised to wipe out whole areas of employment in an upcoming machine age that Bank of England governor Mark Carney has warned might "hollow out" the middle classes.

With legal, banking and insurance industries facing such upheaval in the face of AI automation, the City must brace for change. Young, nimble and digitally focused businesses are challenging decades-old incumbents, and the City must adapt once more, responding to the cultures, practices and aspirations of such companies to stay a vibrant, populated area of commerce.

But here's the thing – Lloyd's of London was founded in a coffee house. The City was the original co-working hub, a place where interested parties would meet and talk face-to-face. It had a thriving ecosystem of interdependent businesses, financiers and technical support literally a century before anyone thought to describe it in such terms.

This report was commissioned by the City of London Corporation and the City Property Association, in association with Cushman & Wakefield and KPMG, to find out whether the City is still attractive to cutting-edge businesses. Is it the place to be for fast-growing fintech, as it was for fledgling finance and insurance companies in the 18th century? If not, why not?

Is a strategic intervention required, such as an accelerator or dedicated space for the future of finance, insurance, legal, cyber security or blockchain? Are there plans that aren't visible? Do they need to be aggregated, or does the City already provide enough flexible workspace to make a fintech equivalent to the Francis Crick Institute (for biotech) or Alan Turing Institute (for computing) unnecessary?

Is an area comfortable with a traditional business week ready to meet the demands of employees who work when and how it suits them? Could it be that internet connectivity, public transport and street-level coffee culture are better served in the surrounding creative and tech enclaves of Shoreditch, Spitalfields and Smithfield? Do initiatives need to be undertaken to drive and support the growth of young businesses alongside traditional occupiers?

These are some pretty big questions and there's a lot of ground to cover in such a short report. However, by talking to those people with a vested interest in a successful future, this research throws a spotlight on how the Square Mile should continue its centuries-long role as a viable, relevant centre of global business.

YOUNG, NIMBLE AND DIGITALLY FOCUSED BUSINESSES ARE CHALLENGING DECADES-OLD INCUMBENTS – THE CITY MUST BRACE FOR CHANGE

INTERVIEWED FOR THIS REPORT

The authors of this report would like to thank representatives from the following organisations for sharing their insights:

City of London landlords
Axa Investment Managers, Blackstone, British Land, Brookfield Properties, Land Securities Group, Oxford Properties, Schroders Real Estate, Stanhope, WRBCD

Established City corporates
Addleshaw Goddard, Allen & Overy, AON, Aviva Investors, Henderson Global Investors, L&G, Nabarro, Schroders

Startups
Callsign, CheckRecipient, Deposit Solutions, Fund Apps, Lexoo, World Remit

Interested parties
Bathtub 2 Boardroom, Cyber London, Innovate Finance, Lime Street Digital, Centre for the Fourth Industrial Revolution

THIS REPORT: THE CITY TODAY, THE CITY TO COME

OBJECTIVES

- To examine the way technology will impact the City's core occupier base
- To understand how the developing technology cluster is evolving and its interrelationship with City industries
- To determine whether dedicated space to promote fintech, insurtech and leg/regtech is appropriate
- To understand the appropriate business and cultural environment in order to foster the continued evolution of the Square Mile as a world-class business centre
- To identify in what ways the Square Mile needs to adapt to foster the development of relevant clusters

METHODOLOGY

This research involved a review of published material and data to identify how the role of technology is changing and how it is impacting on different business sectors. This also considered the role and function of accelerators and incubators in supporting emerging technology, and the existing capacity across London.

Perceptions and views of a wide range of interested parties were sought via detailed face-to-face interviews. These interviewees broadly covered landlords and large corporates operating in the City, along with discussions with startups/scale-ups and practitioners actively involved with the emerging technology community.

The final output is a set of recommendations, setting out a course of actions that should be taken by the City of London in order to improve the environment of the City and attract and retain companies from the emerging technology sectors.

BACKGROUND

This report was commissioned after the City of London Corporation convened a breakfast in October 2016 to discuss whether the City should have a space dedicated to promoting fintech. The breakfast brought together a diverse group of landlords, City occupiers, growing fintech companies and other interested parties.

The conversation identified that with the Square Mile full of commercial office space, largely occupied by finance, insurance and legal companies, the City could benefit from diversification. It was decided that the City is in fact already diversifying and, in particular, that an increasing number of tech companies are locating in the district. However, there wasn't a dedicated "front door" for this fast-growing sector. The group concluded that there was no need to duplicate the approach of rival tech spaces, but there was an appetite to explore the potential for a complementary offering in the City.

With the crosswinds of tech affecting all of the City's incumbent sectors – and the rise of artificial intelligence, machine learning, cyber security and blockchain – the City is very likely to play host to a different occupier base in the future. This report explores how to respond to the change underway, and whether a space with an agenda to house and mix these emerging industries and the large and small occupiers of the City merits exploration and further investment.

CONTEXT

AI, machine learning and cyber security are affecting City occupiers at an ever increasing rate.

London is a popular location for emerging technology, which have established clusters all over the city.

The City is perceived as an expensive location for emerging technology companies but that has not prevented a number setting up within the Square Mile.

The City is one of the few London boroughs to have seen year-on-year growth in the number of startups.

The emerging tech sector typically takes affordable, functional space. Its demands are simple – amenities, connectivity and meeting rooms.

There are about 40 accelerator/ incubator spaces across central London yet few are within the City.

Most accelerators/incubators are located within co-working/shared workspace environments or with parent organisations. Few have entered into a traditional lease.

There are already a number of corporate and independent accelerators being planned within the City to address the imbalance.

There is no "one size fits all" model for an accelerator, with government-backed, corporate-backed and independent accelerators operating successfully around the world.

SUMMARY OF INTERVIEWS

Landlords …

- overwhelmingly support attracting emerging technology into the City
- feel that the City is a suitable location for emerging technology due to transport links, proximity to capital and the existing ecosystem
- support the idea of a City-branded accelerator and believe that one would attract startups. An accelerator would need to have a structured agenda and be authentic but wouldn't need to be in a top-quality building
- are hesitant to offer discounts or enticements to emerging technology companies
- want the street environment to continue to change, with additional retail and food outlets to promote a more diverse culture
- want existing occupiers to understand the wider implications of not working traditional hours
- want emerging technology and large corporates to work alongside each other, thereby benefiting from collaboration and cultural exchange.

CITY LANDLORDS FEEL THAT THE CITY IS A SUITABLE LOCATION FOR EMERGING TECH DUE TO TRANSPORT LINKS, PROXIMITY TO CAPITAL AND THE EXISTING ECOSYSTEM

Large corporates …

- are embracing new technologies within their businesses
- think that the City is an ideal venue for collaborating with startups but also that more work needs to be done in this regard
- identify the potential to extend the scope of collaboration with emerging technology companies
- unanimously believe that they would reap the benefits of being in close proximity to young, innovative companies
- feel that property owners need to modify their somewhat entrenched views and welcome a culture that attracts different types of companies, including the emerging technology sector
- recognise that the diverse property offer within the City is a major pull factor
- believe that the City of London Corporation and developers need to build further on their existing work together to deliver more suitable and affordable space for the startup and tech community.

LARGE CORPORATES UNANIMOUSLY BELIEVE THAT THEY WOULD REAP THE BENEFITS OF BEING IN CLOSE PROXIMITY TO YOUNG, INNOVATIVE COMPANIES

The tech sector …

- is worried about the threat of exploitation by large corporates
- realises there's currently a lack of startup knowledge in the City and wonder whether they could do more to promote themselves
- identifies the City as having all the ingredients necessary for startup success – talent, capital, superb infrastructure and a potential for partnerships with larger corporates
- recognises that collaboration is only relevant for business-to-business startups
- views the City as a traditional and expensive location
- feels that tech companies are seen as second-class citizens within the Square Mile
- finds that co-working spaces don't meet their compliance needs
- wants to work with large corporates as customers
- want to be treated as partners, rather than marketing initiatives for a corporate innovation agenda.

TECH COMPANIES REALISE THERE'S A LACK OF STARTUP KNOWLEDGE AND WONDER WHETHER THEY COULD DO MORE TO PROMOTE THEMSELVES

Interested parties …

- believe that genuine collaboration between startups and big business is limited and often undertaken purely for PR reasons
- think startups require assistance in breaking down barriers between themselves and large corporates
- feel that startups have as much right to work in the City as everybody else
- want the emphasis to be on nurturing and protecting startups rather than solely focusing on growth
- want to create the "coffee houses of the future" – places where ideas and commerce are fuelled through social interaction
- highlight that physical proximity isn't the main driver of collaboration – it is creating meaningful integration
- think that fostering startups in the fintech, legaltech and insurtech spheres will help to reinvent the City for the 21st century
- want better coordination between existing initiatives.

INTERESTED PARTIES WANT TO CREATE THE "COFFEE HOUSES OF THE FUTURE" – PLACES WHERE IDEAS AND COMMERCE ARE FUELLED THROUGH SOCIAL INTERACTION

DEFINING TERMS

London is the world's third-largest centre for tech companies – but the City needs to be clear who they are and what they want

The City office market has traditionally been dominated by banking and financial, professional services and legal occupiers – with the former accounting for half of all take-up over the last decade. But as these sectors undergo structural change, in part as technology impacts their business model, new companies are coming to the fore to shape their future direction. The focus of this report is the fintech, insurtech and legaltech who are most closely connected to the existing city occupier base – and primarily on the startups who foster so much of this disruption.

The City is already seeing an influx of larger tech companies, most recently with Deliveroo leasing 51,500 sq ft at Cannon Bridge House. The tech sector accounted for 10% of lettings over the last three years, compared with a long-term average of less than 5%. And positively, data from Startup Britain (figure 1) shows that startups are already colonising the City.

Fintech
Fintech is the sector focused on using emerging technology to make financial systems more efficient. Of the three fields of technology that we look at in this report, it is the most well-known and widely adopted. Despite the threats that Brexit could pose, London still provides an excellent platform for fintech entrepreneurs, with access to established firms in Canary Wharf and the Square Mile. Of the most recent FinTech50 list, 29 are located within London.

London's regulatory "sandbox" is also a plus for fintech since the Financial Conduct Authority allows businesses to test financial products without having to adhere to the normal regulatory consequences.

Fintech is a diverse market, with mobile apps such as Apple Pay revolutionising payments, and startups such as Betterment and Nutmeg changing the way consumers interact with their investments. At Finovate Europe 2016, over 20% of startups were focused on investment management, while blockchain was high on the agenda.

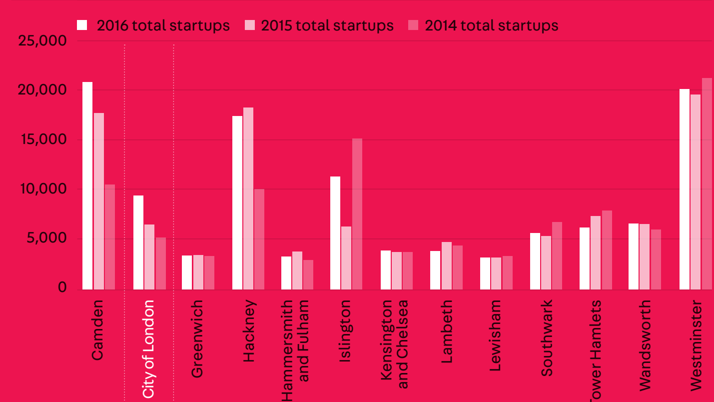
Legaltech
Legaltech is focused on using technology to improve and adapt processes. The legal profession has been slower to adapt to or embrace innovation – until now. Law firm business models are heavily entrenched but tech startups believe that the market can be unbundled, unlocking value for the startups that achieve this as well as legal firms themselves.

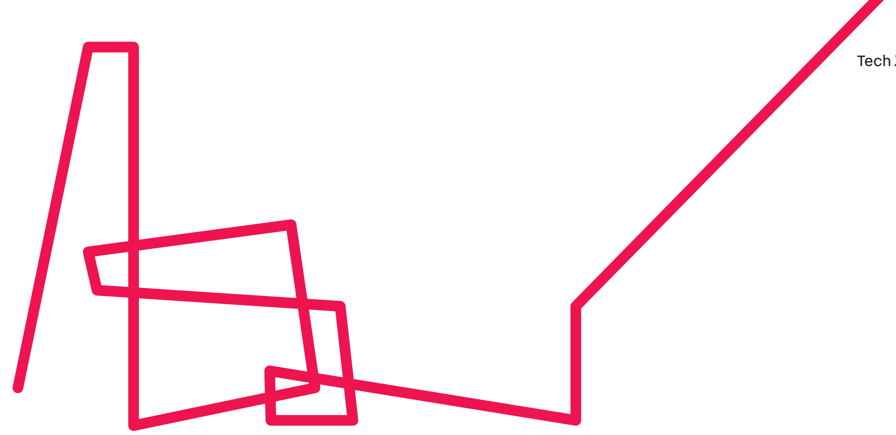
Early adopters tend to be larger firms, who tend to be better placed to interact with startups, leveraging their expertise and networks in exchange for access to innovative ideas and business models.

London has the potential to become a legaltech global hub. According to Legal Geek, there are 54 legaltech startups operating across the UK, with 31 based in central London.

Lawyers such as Nabarro are using AI to automate document reading, reserving the brains of lawyers for higher-value work.

Figure 1: Inner London startup trends — **Source:** Startup Britain





Insurtech
Insurtech is a part of fintech, with a specific focus on disrupting and innovating the insurance sector. It has not yet seen the growth that the wider fintech sector has experienced. CB Insights puts the difference in investment between insurtech and fintech in 2015 at over $30bn globally, but the first quarter of 2016 saw the largest investment yet in insurtech businesses, with 45 deals raising a combined $650m.

A complex regulatory environment, combined with the perceived reluctance of some key players, has meant that the insurance sector has been slow to embrace technology and there are only a handful of insurtech companies in the City. But with the global financial crisis denting consumer confidence in banks and customers seeking alternatives, insurance providers are now warming to the increased efficiency and transparency that insurtech solutions can offer.

Insurtech is diverse. From consumer apps that influence premiums for safer drivers, to sensors tracking shipments, there are myriad opportunities for it to flourish.

Accelerators vs incubators – what's the difference?
An ambition of the City of London Corporation is to bring together the needs of large corporates with those of emerging tech. One way to facilitate this is would be to promote spaces dedicated to future industries, for example through the provision of accelerators, incubators, clubs (such as Soho House, recently arrived in the City) and flexible workspace.

The goal of an accelerator is to "accelerate" the growth of existing businesses with workable concepts. Generally, programmes have a fixed timeframe, with startups mentored by experts before being given seed investment, often in exchange for a small amount of equity. The aim is to prepare the startup to scale at pace in preparation for an initial round of funding.

By comparison, an incubator is more suited to startups at the innovation stage of development. Incubators do not operate on a set schedule and typically run for longer. They are supported by venture capital firms, large corporations or government bodies that neither take an equity stake nor provide upfront capital. Getting a place in an incubator can therefore be very competitive.

Despite increasing numbers, there is a general shortage of accelerator/incubator space in London, with about 40 programmes currently dispersed around the city centre. Shoreditch is home to the largest proportion but Fitzrovia is another submarket that provides a good mix.

LONDON SHOWS THE POTENTIAL TO BECOME A LEGALTECH GLOBAL HUB

London's only fintech-specific accelerators/incubators are located in Canary Wharf, Aldgate and Whitechapel, while there are few identifiable insurtech or legaltech accelerators in operation. In the City, there is only one building offering incubator space, housing Bathtub 2 Boardroom and the Startup Tribe.

However, there are a number of proposals on the horizon. Mishcon de Reya has announced its MDR Labs initiative (see page 17), while we understand that another global law firm is considering a programme. Legal Geek is also launching a legaltech incubator.

As part of a wider effort from Lime Street Digital Partners, RiskForce is a project to establish an innovation lab to catalyse insurtech, regtech and fintech startups. It aims to help validate digital products and services, while creating links to established market players. There is a strong focus on the digitalisation of the vast amount of data that has until now been an untapped resource. We also understand, through the course of this research, that a centre for the "fourth Industrial Revolution" is proposed near Finsbury Square.

WORKSPACES: WHAT IS THE TECH SECTOR LOOKING FOR?

As the City occupier base diversifies away from the traditional sectors, there is a need to ensure buildings are attractive to both existing occupiers and emerging technology businesses. The demands of the technology sector are fairly well documented, with the sector being at the vanguard of changes currently evident across pretty much every business sector. But do smaller emerging technology companies want to be housed in the same type of space with the same facilities as their larger neighbours?

Just under half of those in accelerator/incubator spaces are in a co-working/shared-working environment. Co-working spaces provide the bricks and mortar; accelerators the ecosystem. With a further 20% of accelerator/incubators located within parent organisations, it is clear just how few are in traditional leased space.

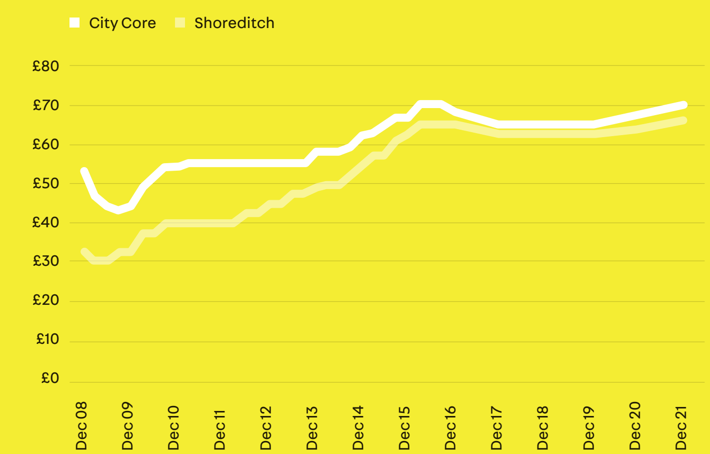
The rise of co-working space since the global financial crisis reflects increased demand from SMEs in the capital. Co-working space offers the flexibility in use and duration that emerging tech companies typically require, with the ability to scale up or down with relative ease.

The serviced office sector accounts for around 3.5% of City office stock, which is on a par with central London. But while the City has an abundance of traditional serviced office providers, there are only a handful of new entrants, such as Bathtub 2 Boardroom and WeWork, meeting demand from emerging technology companies. Cost is a key concern for startups, particularly when they graduate from incubator or accelerator space and have to pay rent. Suddenly occupational costs increase, client expectations change and finding affordable space becomes a key challenge. The fixed monthly fees of co-working spaces make it easy to manage financially – especially if strapped for cash. The startups interviewed still see Shoreditch as a relatively cheap destination full of affordable space, yet rents are increasingly on a par with the City Core. The homogeneity of rents across the capital now highlights the value of the City.

CO-WORKING SPACE OFFERS THE FLEXIBILITY IN USE AND DURATION THAT EMERGING TECH COMPANIES TYPICALLY REQUIRE

Figure 2: Prime rents – City Core vs Shoreditch

Source: C&W



What does emerging tech want?
On the whole, it's not too different from the wider business community. In terms of amenities, any startup wants a functional office, yet few would settle for a generic corporate space. Given the choice of "bland but new" or "authentic but used", most will choose a second-hand refurb that both makes a statement and keeps costs down.

The one incubator currently in the City is in a period building that's ripe for a refurbishment, but has a layout that allows group working as well as private meetings. As one interviewee put it: "The thing with startups is that we are really here to do business and as long as a space makes financial sense and it's good to meet clients then that's OK. There isn't such a thing as a perfect space."

An environment where tech companies can attract talent is key. They also need locks for regulatory compliance. The provision of printers and copiers is an essential as most can't afford them, whereas storage space is of limited importance. Connectivity must be a given, with no wifi blind spots and full mobile network coverage. Workspaces need hot desk and breakout areas as well as private meeting rooms. The latter is particularly key to creating the right impression when pitching.

BY DIVERSIFYING THEIR OWN PORTFOLIOS, LANDLORDS CAN BROADEN THE CITY OF LONDON'S OCCUPIER BASE AND WIDEN ITS APPEAL

Beyond that, offices need to cater for the more fluid integration of work and life in emerging tech companies. The focus on amenity space is just as, if not, more important to startups who can't afford to invest themselves. Kitchen and event spaces are a must, and so are bike racks and showers.

The physical needs of the emerging tech sector are the same as larger companies but the legal structure is very different. They don't want a regulated nine-to-five, they need to have greater flexibility in lease terms and in the ability to scale up or down. They require access to the building at any hour of the day or night, putting a greater emphasis on asset management and round-the-clock security.

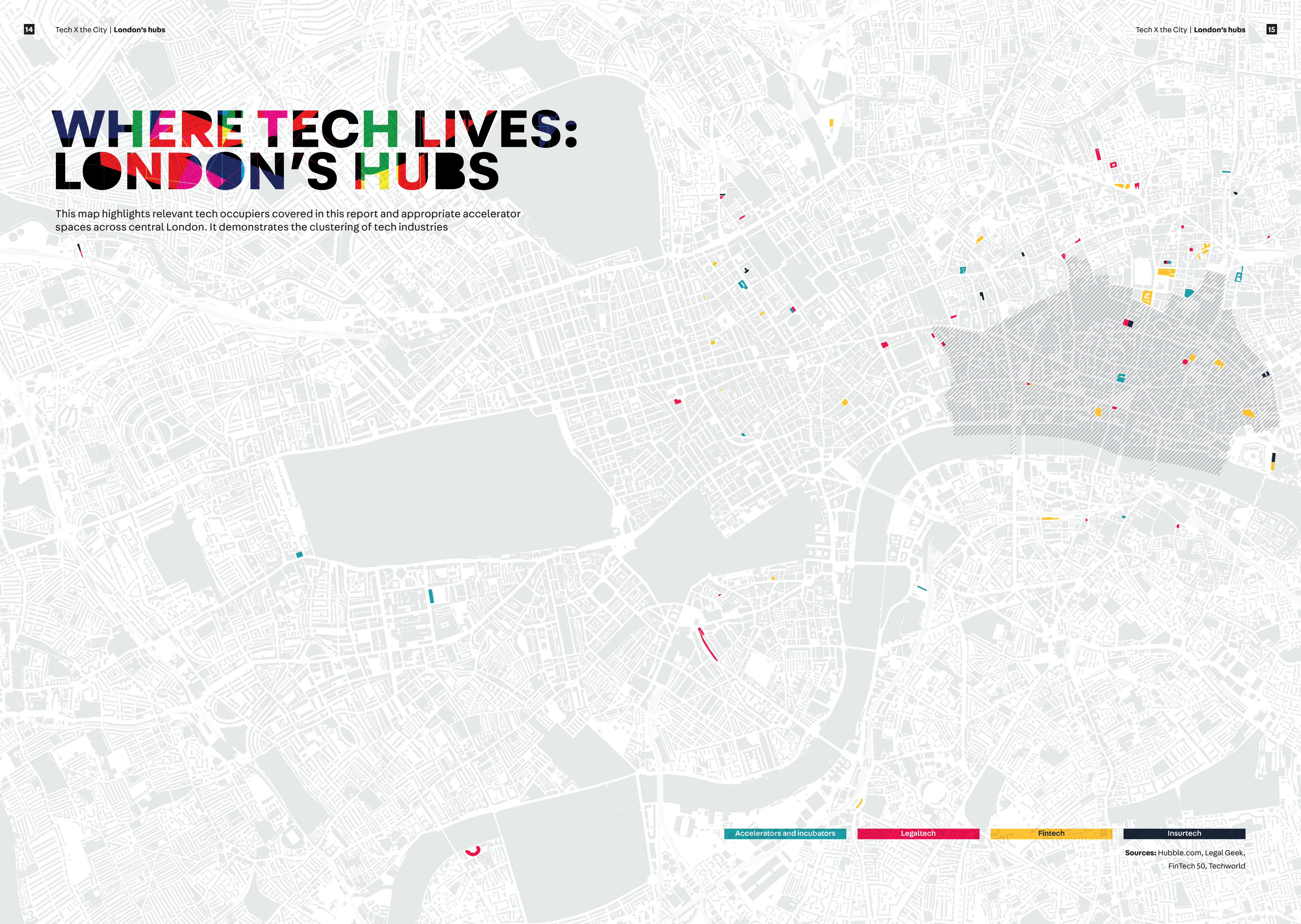
What suits landlords?
Most landlords with larger portfolios are increasingly looking to provide smaller units and flexibility. By diversifying their own portfolios, landlords can broaden the City's occupier base and widen its appeal. Any property offer needs to be mindful of the stage of evolution – a startup will typically employ between one and 10 people and require up to 3,000 sq ft, while scaling companies can demand anything up to 20,000 sq ft. Multi-let buildings will be an increasing part of any portfolio.

While landlords absolutely understand the need to cater for the startup sector, the same age-old barriers remain. These are the questions of covenant, lease-term flexibility and the impact on value. Landlords will be looking to de-risk these by entering into partnerships with third-party shared workspace providers. Or, alternatively, this is where the City of London Corporation can enter as the curator of space.

When it was suggested to interviewees that large corporates with surplus space might release it to startups, there was a lukewarm response. This was explained by concerns over data security, intellectual property and the interaction between startup and corporate employees. But this is already happening, with the likes of Hubble and Business Space Made Easy, and is likely to form a larger part of the market.

WHERE TECH LIVES: LONDON'S HUBS

This map highlights relevant tech occupiers covered in this report and appropriate accelerator spaces across central London. It demonstrates the clustering of tech industries



Sources: Hubble.com, Legal Geek, FinTech 50, Techworld

CASE STUDIES

The following examples show how a variety of programmes can deliver the requirements of growth businesses, especially where a specific need in an area or sector has been identified. The Square Mile has unique characteristics that must be carefully integrated with any forward-looking venture, but much can be learnt from initiatives elsewhere in the world

STONE & CHALK

ACCELERATOR

Australian innovation hub with a sense of community

Stone & Chalk was founded in August 2015 after a report commissioned by the Committee for Sydney in partnership with KPMG recommended an innovation hub within the Sydney area. With a total of 25 corporate partners on board, Stone & Chalk's goal was to unlock the potential of Australian fintech.

Six months after launch, there were 41 startups using the hub. Six months later, there were 84. This spectacular uptake resulted in $42m of investment in the first quarter of operation.

Stone & Chalk put their success down to the sense of community they have created, including a "charter" which sets out the objectives for members. The community is further strengthened by social amenities and events such as learning lunches and a residents' assembly.

> "PEOPLE DON'T REALISE JUST HOW SPECIAL IT CAN BE WHEN YOU INTEGRATE THE BEST OF A LARGE, CORPORATE ORGANISATION WITH THE BEST OF A SMALL, AGILE, FAST-MOVING STARTUP"
>
> Alex Scandurra, CEO, Stone & Chalk

The mixed background of members has created an inclusive atmosphere that has been further diversified by the "fintern" programme, which invited 100 students from local universities to get involved with the startups. Some of these students have subsequently been offered full-time employment, which has contributed to the growth in numbers working out of the hub.

Members benefit from advice and support from the in-house mentor programme as well as access to clients at an early stage, which helps to accelerate their development. The numerous corporate partners also benefit from this collaboration by being kept up to date with the new ideas and innovations that fintech startups bring with them.

As a next stage, Stone & Chalk is looking to establish a "fintech super-highway" across five key markets in Asia.

MDR LAB

INCUBATOR

Law firm Mishcon de Reya to mentor and support tech startups in 10-week programme

In partnership with innovation specialist L Marks, law firm Mishcon de Reya has started a 10-week programme aimed at early- and growth-phase technology startups dealing with litigation, transactional law or business of law.

Startups will have access to Mishcon's lawyers as well as mentorship and support from the wider firm. MDR LAB participants will also be able to leverage Mishcon's legal and business networks.

The programme will take place in Mishcon's London HQ, with applications due before 12 March 2017. Applicants will be asked to pitch their plan to the Mishcon panel in order to secure a place on the programme. The incubator starts on 8 May and concludes with a demo day on 14 July, when each startup will showcase its business and propose future engagements with Mishcon.

> "INNOVATION IS HAPPENING ACROSS OUR INDUSTRY AND WE WANT TO BE AT THE FOREFRONT OF IT"
>
> Nick West, chief strategy officer, Mishcon de Reya

KICKSTART ACCELERATOR

ACCELERATOR

Swiss hub with fintech, food, robotics and smart cities under one roof

Based in Zurich, Kickstart Accelerator is part of a wider initiative by digitalswitzerland, which is operated by Impact Hub. The accelerator provides an 11-week programme for startups within five verticals: fintech, food, robotics & intelligent systems, smart cities and healthcare. With the exception of the healthcare startups based in Basel, all will work together under one roof.

The accelerator's key focus is entrepreneurial support from a panel of expert mentors. Eric van der Kleij, former CEO of TechCity UK and founder of Level39, will lead the development of the fintech programme.

Startups will also have access to industry specialists who can be booked for one-to-one sessions.

The programme concludes with a demo day to an audience of investors, executives and other Swiss startup stakeholders. Startups are guaranteed 10,000 Swiss francs in seed money, with a further 25,000 Swiss francs on offer for the top startup in each vertical.

DO CITY PROPERTY OWNERS WANT TO PROMOTE TECH?

Attracting emerging tech companies to the City is largely in the hands of landlords. To date, their focus has been on traditional occupiers with strong covenants to boost investment values

The research showed that landlords are starting to recognise the rise of the startup and emerging technology sector as a critical part of the evolution of the City. They are unanimously in favour of attracting fintech, proptech, insurtech and other emerging industries to the Square Mile. However, many believe this will incur office refit costs and not all want to offer reduced rates as an enticement, since startups are just as likely to move on as they are to become long-term occupiers.

The suitability of the City as a startup base was acknowledged by all parties, though with surprise that it hasn't already happened on a much larger scale. With buildings that meet the needs of SMEs, a central location, strong transport infrastructure and proximity to the capital that growing companies need, the most pressing question stops being "Should startups come to the City?" and becomes "Why aren't more already here?"

A dedicated space

Most City property owners feel that a single, City-branded accelerator/incubator space would be the best way of attracting emerging technology and facilitating an exchange of ideas between small companies and established firms. A concentration of companies and like-minded individuals in an accelerator or incubator would create a positive focus point within the City, but all stressed that this could never be just a marketing tool. Such a space must have a well-defined agenda and show itself capable of usefully integrating growing companies into the existing business ecosystem.

Property owners feel that the City is still regarded as an unaffordable location for emerging technology and that more needs to be done to challenge this incorrect notion. For every modern high-rise and listed building, they point to other existing offices that offer a better fit in terms of size or budget. That many buildings don't match the aesthetic standards preferred by big business can be a positive in the tech sector, where period features, exposed pipes and the bare brick aesthetic can be ticks rather than crosses.

Redefining the environment

Startups and scaling companies rarely embrace traditional working patterns and expect a vibrant street-level environment that allows work to spill out into cafes, restaurants and public spaces. They also require flexibility in terms of leases and scalability due to the sink-or-swim nature of their businesses.

Property owners acknowledge that these demands require a rethink on their part. While a diversification of their occupier base would present

> PROPERTY OWNERS FEEL THAT THE CITY IS STILL REGARDED AS AN UNAFFORDABLE LOCATION FOR STARTUPS

the City as a more appealing location, offering favourable discounted rents to startups will only be feasible if value is added to other parts of their business. Whether this can be achieved by encouraging the required blend of street-level retail and hospitality remains to be seen.

What's the goal?

Many interviewees cited New York, San Francisco and Chicago as places where the financial district has become a welcoming, cosmopolitan area, with big business and startups successfully working side by side in streets that have lives outside office hours. The City of London Corporation is looking to support such an interconnected offering.

However, now that the value of diversity is being recognised, owners feel that they can work with the City of London Corporation to shift perceptions, create cohesive public spaces and refit offices that suit a wider range of needs. The City can become a 24/7 hub with a social aspect.

MESSAGES FROM CITY LANDLORDS

"It seems odd that the startup recipients of capital haven't already moved into the City, right next door to the money."

"We love the City's history and architecture and how it's evolved into an incredible financial centre from tiny streets. If everything gets too modern, it won't be the City any more. Modernisation needs to appreciate this context."

"Smell the roses – startups are now part of the landscape and most of them aren't going to leave Shoreditch to go to France or Frankfurt. Welcome them to the City."

"The challenge for landlords and, more importantly, developers is how you provide flexible spaces which can easily create the sort of environments that new businesses want."

HOW IS DIGITAL TECHNOLOGY CHANGING THE CITY?

The "fourth Industrial Revolution" is transforming the very nature of work – and the spaces needed to do it

While technology has already changed the face of business, emerging tech will accelerate the pace, leading to significant disruption. Such profound change is not just of interest to tech companies and startups. Big businesses should already be preparing for radical restructuring. The City of London is nearly full, but over time, there is an expectation that headcounts will fall. Landlords must anticipate this by providing office spaces for SMEs that cater for their heightened technological needs.

Professor Klaus Schwab of the World Economic Forum described the fourth Industrial Revolution as being "characterised by a fusion of technologies that is blurring the lines between the physical, digital and biological spheres". In the City of London, businesses run by people who grew up in an era of handwriting, and who now oversee staff raised with the keyboard and mouse, must also deal with the smartphone generation. Businesses must embrace and predict fast-paced change.

BUSINESSES MUST EMBRACE AND PREDICT FAST-PACED CHANGE

Changing spaces
In order to function as a base for any business, all buildings require connectivity, with the emphasis on wifi, as workers carry increasingly portable devices between their desks, homes and meetings. High-speed connectivity and free public wifi at street level is a high priority – especially in the City, where tall buildings can hamper connectivity. The City of London Corporation is already taking steps to provide this. It recently announced the rollout of a small-cell network across the Square Mile to provide an ultrafast wireless broadband service replacing its free offering. This is the largest single investment in wireless technology ever made in London.

It was also understood that technological demands need to influence the design of future buildings. Greater numbers of landlords and developers are making connectivity a top priority when building properties and looking to achieve favourable WiredScore ratings. This certifies office buildings with the fastest and most reliable internet based on their connectivity, infrastructure and readiness, with the value of a good score well understood.

Fresh approaches, new concerns
Artificial intelligence (AI) is likely to become more prevalent, implemented in many business sectors. As computers are able to outperform humans at many complex tasks, the implications for the workplace are vast. There is no doubt that AI will change space requirements, with many roles highly susceptible to automation. "We're starting to ask ourselves, 'What if we have to cut our headcount by half'," one big business interviewee noted. "What will be the impact of that in a year? Or in 10?"

"From an economic perspective, the way people are working no longer needs vast floor spaces," said a landlord. "So how can they make better use of space? We believe it's by fostering inter-team and personal collaboration."

This questioning of the very nature of work is, in part, due to the increasing role of AI. Once major corporates start to use it to read and understand legal documents, analyse business data and even communicate with customers through chatbots, fewer staff will be required. Yet strangely, human interaction will become ever more important.

The most talked-about area in fintech has been the application of blockchain – a digital public ledger that automatically and securely records transactions. Transactions are verified and organised by a decentralised platform, so it requires no supervision yet remains resistant to fraud. By providing tamper-proof ledgers accessible by all interested parties worldwide, blockchain has the potential to disrupt not only banking but also the legal and real estate sectors.

What's the goal?
The keyword in relation to technology is "agility". Light, portable, wifi-connected devices give individual staff members the ability to work from anywhere within the office. They can even work from a cafe or their home. Technology allows businesses to automate more and more of their services and while this will lead to fewer staff, the roles that are left will put a greater emphasis on the human touch. In turn, this will change the purpose of offices into a place where people meet and exchange ideas. Taking up this newly available space will be the tech firms and startups developing the digital tools required to make it all happen.

MESSAGES ABOUT TECHNOLOGY

"The Big Bang passed insurance by but was a major boost for banking. Into the next generation of technology, we don't want to miss out this time around."

"AI legaltech does the less stimulating work, leaving people to use their skill and judgement rather than processing. So yes, it's a challenge but we should see it as an opportunity rather than a threat."

IS EMERGING TECH ATTRACTED TO THE CITY?

Tech companies want to be close to capital and customers, but are worried about lack of knowledge of their sector in the Square Mile

The huge demand for London-based accelerator projects outstrips the current supply. Fintech, legaltech and insurtech startups are gearing up to produce the tools that the digital transformation of long-established business sectors will require. Emerging technology companies wanting to be close to investment capital and future customers see the benefits of a City of London location yet worry that they are not yet viewed as a key sector by big business incumbents.

A place to be seen
The unanimous response from interviewees was that the City has the potential to be a startup hub. The "pushes" are that existing London accelerators are oversubscribed, that demand is rising and that startups will require more space and capital to grow. The "pulls" drawing them to the City are access to talent and expertise, a huge potential for commercial partnerships with established players and an explosion in demand for digital products within finance.

Most people felt that the ideal solution would be a dedicated City accelerator/incubator, although all highlighted the value of any clustering of startups around the City's established client base. "Five of the world's largest law firms next door to each other?," noted one interviewee. "You could meet them all in a single day!"

Access to markets is critical for startups. With many fintech, legaltech and insurtech startups concentrating on B2B solutions, a proximity to such companies could not only aid product development but also future sales.

While the City has made great strides in promoting tech with its support of Tech London Advocates, Innovate Finance and Innovation Warehouse, respondents felt there was more to do, in light of the weight of change.

STARTUPS ARE DRAWN TO THE CITY BY ACCESS TO TALENT AND EXPERTISE, AND THE HUGE POTENTIAL FOR COMMERCIAL PARTNERSHIPS

MESSAGES FROM THE TECH SECTOR

A chance to be heard
Emerging tech companies felt there was a general lack of knowledge about technology within the City, which some viewed as a problem and others an opportunity. Many saw it as both, offering startups a niche in which to offer something truly visionary. With large firms only starting to grasp the value of emerging technologies, it's perhaps inevitable that they have also been slow to grasp the benefits of collaborating with tech firms. As things stand, it's been up to the startups to approach the incumbents.

There was a general feeling that this disconnect between emerging tech and big business could lead to tech companies being seen as "second-class citizens" within the City. Some felt that corporate support for a City-centric accelerator might be for "PR reasons" rather than because they regard innovation as key to their industry. Because of this, startups stress the need to generate authentic relationships rather than ones that merely tick a box.

What's the goal?
Startups, large corporates and the City of London are all interested in bringing more tech companies into the Square Mile. This move would diversify the area and help underpin the incumbent businesses as they adjust to advances in automation within their sectors.

City incumbents need to engage with tech companies to allow this transition, either as invested partners or as product suppliers. For their part, startups need to rely on dense ecosystems and low-risk commitments as they build their product and customer bases. Much is made of the tech sector's love of coffee shops, street life and workplaces that mix work with fun. While the City offers these in increasing quality, what emerging tech companies need initially are incentivising, collaborative relationships with big businesses. The City should promote its burgeoning leisure, culture and retail offer to workers in order to tackle perception issues and attract the talent needed for the tech sector.

The goal therefore is to underpin the needs of both groups by providing a dedicated accelerator/incubator space and affordable offices that will future-proof City occupiers and limit hollowing out of industries and talent.

A building, or series of buildings, devoted to this is not a panacea, and startups are not a silver bullet. To future-proof the City, its social glue needs as much sustained investment. Initiatives such as Escape the City and Angels in the City should be given more emphasis to bring diverse communities together.

"**We see a genuine discomfort** from [some City institutions] when dealing with emerging industries. The City's very numbers-driven while tech deals in fuzzy unknowns and comes with a different culture."

"**Being at the heart of global finance** would be hugely beneficial to startups. No need to get on a plane – they could walk along the street, door to door!"

"**What's needed is properly incentivised, entirely independent startups.** They need an enterprise zone, a beacon for a tech ecosystem, but that's going to require a break on existing City rates."

HOW CAN THE CITY REMAIN A WORLD-LEADING PLACE FOR BUSINESS?

The City is proud of its history, but has always been focused on the future. Now it must embrace a new era

The City of London offers many of the facilities favoured by the tech community, but it must still do more to attract the technological pioneers that will both power the digital transitions of its existing businesses and fill up the area's office spaces as the headcounts of these traditional businesses drop. In doing so, the City must not lose its unique identity, one that was forged over centuries and is now crammed with period buildings and cutting-edge office blocks.

A place like no other

Despite the City being home to a number of established companies where working hours go beyond the regular nine-to-five, the perceived culture needs to change to attract growth companies from sectors such as fintech, insurtech and legaltech. The physical environment must be managed to provide as much support to life outside of work as possible. But in supporting this cultural shift, the City itself should not become something else. It should not try to copy other areas of London, or aim to ape startup hotspots such as San Francisco or Silicon Valley. This should simply be part of the area's continual process of renewal.

The City's streetscape reflects the rich history of the traditional businesses that made the Square Mile, and who remain its occupiers. The area is home to over 600 listed

MESSAGES ABOUT CITY LIFE

"The City's culture is totally right – it needs that ultra-competitive drive to make money. But there's a disconnect with tech because traditional industries don't want to accelerate the companies that will tear them down. Since it's going to happen, everyone needs to work towards changing, not breaking, the market."

"The dominion of the City is dependent on which future path it takes. Old counting houses are now pubs and Edward Lloyd's coffee house is now a Sainsbury's! It all started here but it needs proper stewardship, starting right now."

"The fourth Industrial Revolution will make the City of London irrelevant unless it becomes the greatest champion of its own transformation. And if it does that, it will be globally regarded for both its boldness and fairness."

"We love the City for what it is physically. It is the global insurance and banking centre. It's the centre of everything. Since the power's already here, it deserves the infrastructure to support that global centre."

buildings, which modernisation must use without erasing. The historic context of the City must remain, even as it works to accommodate entrepreneurial companies.

Making history, not stuck in it
Clashes of interest are inevitable when the old must be so finely balanced against the new, and where expansion must inevitably meet an existing tangle of historic streets. Many interested parties spoke of a need for more open spaces, and it was suggested that some areas could be better used and promoted as venues.

Creating a public realm that is less congested during peak hours yet better used at all other times would not only depressurise the City but also make it more welcoming to existing workers, startups and the general public. For example, the City's diverse history is already celebrated by guided walks and events at key historical sites, which attract crowds out of office hours and at weekends.

Additionally, the area's retail offering needs to continue its shift towards supporting a 24/7 economy, with more independent shops and cafes attracting a greater diversity of visitors. As a comparison, Shoreditch has numerous independent coffee shops and pop-up retail outlets, which feed and house the area's startup culture as well as informing the area's aesthetic.

However, while the likes of street food and outdoor cinema events sound appealing, interviewees noted that the City remains a working environment, so the needs of more traditional occupiers must be considered in respect to crowds, access and noise.

What's the goal?
Throughout its history, the City has constantly reinvented itself, adapting to commercial opportunities by providing whatever financial service is needed. So although some feel that it has been slow to respond to the challenges of digital transformation, further adaptation and invention seems inevitable.

The City of London Corporation is challenged with encouraging a startup culture with "alfresco co-working", maintaining existing businesses as they themselves adapt, and promoting integration between the two. The findings suggest that the City Corporation needs to move towards becoming a curator rather than a landlord, focusing on encouraging companies of all sizes. It needs to promote tech accelerators and incubators, educating investors and big corporates alike of the benefits of such innovation. It needs to encourage more mixed-use development that will find different uses for the Square Mile's open spaces.

In short, it needs to be bold, inventive and willing to take risks.

THROUGHOUT ITS HISTORY, THE CITY HAS CONSTANTLY ADAPTED TO COMMERCIAL OPPORTUNITIES BY PROVIDING WHATEVER FINANCIAL SERVICE IS NEEDED

Q+A

PERCEPTIONS OF THE CITY

As an investor/landlord, this interviewee has a vested interest in making the City a vibrant, populated space. Does he think enough is being done to accomplish this?

Does the City of London resonate with your brand?
Being in the City, being close to your clients and your investors, is more than important. It's vital.

What do you think of the City's current infrastructure?
It's actually got a better network than some of the more peripheral areas I've seen where the techies want to go.

What about the City's public spaces and culture?
The overriding impression is still that the City's just offices. People come in on the train, do their work, then go home. There's not much in the way of culture but the City [of London Corporation] knows that.

Do you see any changes to shared spaces?
The importance of the public realm in design and development is increasing. There's a growing awareness that office buildings can play their part and more of them are opening up their ground floors. But with that comes other difficulties.

Those difficulties being security-related?
People are still worried about terrorism and IT security and rightly so. The big banks don't necessarily want strangers with laptops lounging in their receptions. These fears create a conflict between the more enlightened developers who want this public-realm effect and some occupiers who don't.

Do you see a demand for accelerator space within the City?
Yes. The City knows that the take-up from financial services has been flat at best, yet tech has been rocketing. It needs to take a few risks by taking the hits from the startups that fail in order to gain the wins from the ones that flourish.

How do you see technology changing the City?
We're all aware that technology could make our lives easier but could also result in far fewer people in offices. But it's happening, so we'll all have to deal with it being part of our world.

"THE CITY NEEDS TO TAKE THE HITS FROM THE STARTUPS THAT FAIL IN ORDER TO GAIN THE WINS FROM THE ONES THAT FLOURISH"

THE WAY FORWARD: KEY RESEARCH FINDINGS

FORGING RELATIONSHIPS

The divide between the culture of emerging tech and big business need to be addressed to allow for a smoother integration of these two obviously compatible sectors.

The City of London Corporation can and should leverage its extensive network across both occupiers and landlords.

The City should also actively promote its existing ecosystem in order to inform traditional occupiers of the benefits of "cross pollination" with tech businesses and startups.

Building relationships between startups and big business is a two-way street that allows the flow of new ideas and products as well as mentoring and professional advice. The City Corporation is uniquely placed to facilitate this.

City landlords are crucial to the success of any accelerator programme. The City Corporation will need to convince them that the wider benefits of attracting startups will mitigate the possible lower valuation of buildings containing tech companies.

MAKING MORE OF THE CITY'S STREETS

The retail offering is getting wider, but still needs to be more inclusive, with fewer high-street chain units.

The City is widely seen as a place exclusively for offices. Outside of the Monday-to-Friday, nine-to-five cycle, the perception is that it is largely empty and underused.

There is plenty of underused outdoor space. This could be used to host events in the evenings or at weekends, bringing more life to the area.

The City has many hidden green spaces such as churchyards and is making more of these accessible all the time. Opening more parks and gardens within the Square Mile and using more street-level lobbies as meeting points and cafes would encourage a shift towards the 24/7 economy.

The inclusion of pop-up retail or street-food vendors would also foster the kind of less traditional culture that is more attractive to young companies and their employees.

THE CITY OF LONDON CORPORATION CAN AND SHOULD LEVERAGE ITS EXTENSIVE NETWORK ACROSS BOTH OCCUPIERS AND LANDLORDS

PROMOTING ACCELERATORS AND INCUBATORS

Any City-based accelerator needs to be a unique offering that neither replicates nor competes with any of London's existing programmes.

To achieve this, the City of London should bridge the risk gap for landlords since existing co-working spaces aren't meeting the demands of the tech sector.

Focus should not only be given to accelerators and incubators – flexible grow-on space for companies is crucial to obtain the critical mass to enable a functioning ecosystem.

There are virtual initiatives that can be undertaken too. At a minimum there needs to be greater visibility and support for existing accelerator initiatives. Most respondents said they'd be as happy to have a web interface showing available space and costs in the City in real time.

The main focus of any venture should be to maintain authenticity and to work to a purposeful agenda, not to be used as a superficial marketing tool.

EXISTING CO-WORKING SPACES DON'T EVEN MEET THE CURRENT NEED, AND THE TECH SECTOR IS EXPANDING

A WELCOME PLACE FOR TECH?

The research shows that a space or a series of spaces dedicated to future tech would be of huge benefit to the City.

Existing co-working spaces don't even meet the current need, and the tech sector is expanding.

Cyber security, machine learning/AI, blockchain, insurtech, fintech and legaltech/regtech are all of huge interest to the City's large corporate incumbents.

The City offers good value for money, with rents now virtually on a par with other areas more associated with tech companies such as Shoreditch and the Southbank

A corporate-sponsored accelerator programme, led by a charity/non-profit organisation or in a City of London-branded space, is a viable possibility.

While any accelerator would be a valuable marketing tool, it would also have to be a viable, long-term project with a well-defined set of credible and realistic goals.

NEXT STEPS

All of the findings from this report will require further thought and research if they are to inform and help create a workable, joined-up action plan. But from talking to all the varied parties who have an interest in the future of the City of London, what comes across is the strong desire to create an authentic space which could be described as the "coffee house" of the future. The City was established through bonds made in friendship and established in trade. Might a City-based accelerator become the platform that blends historic values with an innovative, agile and forward-looking approach to business?

CITY OF LONDON CORPORATION

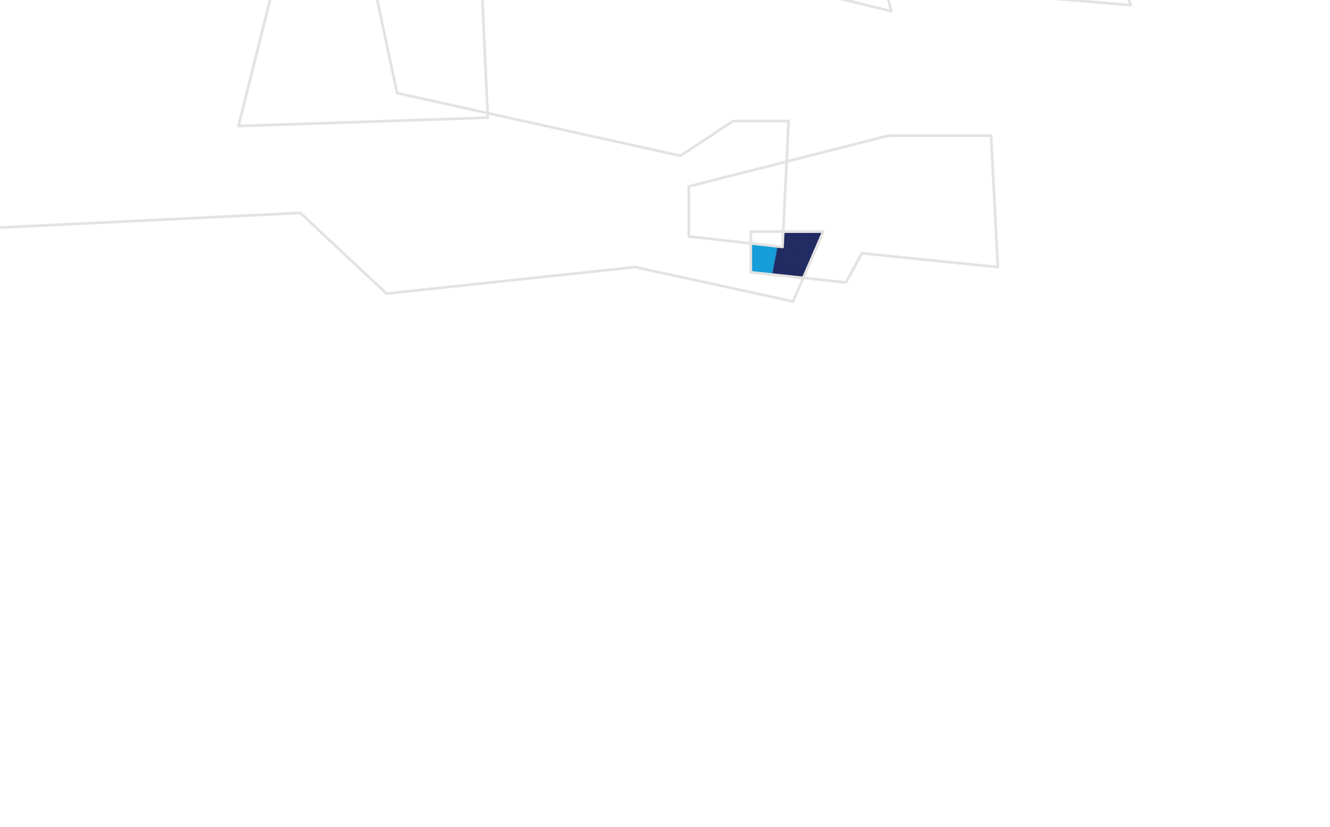
- Promote co-operation between old and new businesses
- Support a reinvention of the Square Mile
- Redefine a global business centre for the 21st century

CITY LANDLORDS

- Repurpose office space for modern use
- Create a 24/7 culture from the street level upwards
- Assist startups with flexible spaces and contracts

STARTUPS AND TECH COMPANIES

- Learn from and mix with established businesses
- Create the digital tools these businesses will increasingly rely on
- Fill the physical spaces created by corporate restructuring



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