

The eye of the storm

By Richard Holledge

Published: December 13 2008 00:23 | Last updated: December 13 2008 00:23

Print



In his spare time, London developer Nick Herrtage plays drums with a pop group called What Next! Given the rocky nature of the property market, it's a fitting name.

For the moment, however, Herrtage is sticking to his day job as a director of Chester Row, a specialist in the kind of property that attracts buyers for whom £5m or £10m, even £100m, is no challenge to the pocket. The company is converting two huge Victorian mansions in Queen's Gate Place, South Kensington, into six 3,000 sq ft flats with starting prices of £5.25m. And "I am confident of the prices I am asking," he says. "I think we will attract a lot of buyers looking in Knightsbridge who find the prices are huge – at least £4,000 per sq ft compared with £2,000 here. People are surprised at the difference as it's only a stone's throw away."

The company's development of the Grade II-listed building radiates boom-time bravado. The flats combine Victorian features, such as cornices, arched and shuttered windows, high ceilings and a splendid staircase, with push-button controls, televisions in walnut veneer sideboards, oak floors and bathrooms with limestone fittings. "I've got people interested in buying two floors, selling for as much as £17m," Herrtage says.

His confidence is shared by developer Finchatton, which has almost completed a daring conversion of 63 Eaton Square in Belgravia into a 9,000 sq ft townhouse. The wall separating the main house from a mews at the back has been knocked down, allowing for a 100ft view from the front of the house through the living area and kitchen. The first floor will have a second reception room, library and bar with a terrace that has a glass floor looking down into an atrium. The five-bedroom property has staff quarters, a sauna, gym, cellar and closed circuit television in every room. The price? £30m.

Both developers are betting that this is a corner of the global property market that is recession-proof – or at least resistant. Certainly, if there were anywhere that could buck the universal trend it

would be the golden London neighbourhoods of Knightsbridge, Mayfair and Belgravia and the areas immediately surrounding them, such as South Kensington. This is a bubble of elegant terraces, fine squares and crescents, where Russian oligarchs, oil-rich Arabs, French, Italians and the Britons who were lucky enough to be born there rise above the common fray of economic disarray.

"It's a different level," says Tom Dogger of Knightsbridge estate agency Winkworth. "People want to live in this part of London because they view these properties as art works. It is a cultured place and because it is a conservation area you're not in danger of someone banging a skyscraper next to you."

Still, he acknowledges that even in these neighbourhoods the sales market is nearly stagnant. "The point is not that they are not buying but they can afford not to sell," he says. "It means no transactions for us, which is a nightmare. [But] the people who live here have three or four homes already. They say: 'Pay me the price or forget it'. You need the luxury of wealth to make that decision. Tenancy levels are good and rentals are positive, so owners can get an income from the property until the market revives in 2010 or 2011."

Some area developers are also waiting the downturn out in the lettings market. One gorgeous, interior-designed 2,200 sq ft, three-bedroom flat spread over the top floor of three Georgian properties overlooking the gardens at Cadogan Place was, for example, put on sale for £6.35m in September but is now also available to rent. "The current economic climate obviously makes it difficult to sell any property [but] because of Cadogan Place's superb location, its high standard and the fact that it is luxuriously furnished, [we've] been able to shift immediately to offering it for rental", with a tenant expected to sign before Christmas, says Faiza Seth, chief executive of design and development company Casa Forma.

Liam Bailey, research chief at estate agency Knight Frank, confirms the slowdown in Knightsbridge, Belgravia, Mayfair and surrounding prime London areas and says it has started to hit prices. "Until a couple of months ago the market here defied the odds [but] by September our figures show that a typical £10m-plus property had dropped by about 6 per cent in two months," he says. "Now our agents are seeing a 15-20 per cent drop from peak value."

That said, he emphasises that much-desired properties with a view of a square or in a quiet road are still as rare as "hen's teeth". And "we had 50, 60, 70 even 100 per cent price growth in the two years before so, if you have been an owner for a while, you are still a winner."

For those still willing to invest in the areas today, there are not only refurbishment projects, such as those offered by Casa Forma, Chester Row and Finchatton, but also new complexes, such as The Knightsbridge, with more than 190 flats, and One Hyde Park, an 80-unit building by developers Candy and Candy that will be completed by 2010, both in the heart of Knightsbridge's shopping district. Half of the units in the latter had been sold at an average of more than £20m each by February this year with an average per square foot price of £6,000.

"Good quality always keeps prices and that's what we have in this area," says property finder Robert Bailey, who has a number of international clients. "People are looking for the better value flats [and] many foreigners equate Knightsbridge and its environs with London. The first time they visit, they come to stores such as Harrods or Harvey Nichols. For them, that's London."

Richard Crossthwaite, another property finder, thinks the area of South Kensington where Herrgate's development is located could also prove to be a resilient high-end market. "Since the scaffolding went up on Queen's Gate Place in May 2007, work has started on about five properties in the immediate area," he says. "This used to be an area with lots of small flats. Now two buildings are going back to being one-family houses and the others are being converted into flats of 3,000 sq ft. These are grand buildings especially popular with foreigners who like having their children educated here and see it as an ideal place to live, with less crowded streets than Knightsbridge and bigger properties than Chelsea."

Liam Bailey advises buyers to also look at other "interesting areas" that are relatively nearby, such as Bayswater and Paddington, across Hyde Park from Knightsbridge, which he expects take off in the next 10 years. Another confident developer, Northacre, is at work here – rebuilding The Lancasters on Bayswater Road, the longest terrace overlooking Hyde Park, into 81 private homes.