

Bubble troubles ahead?

UK property Charlie Ellingworth looks at the potential impact of new developments on a market that has thrived on scarcity

Prime London can't fail – or so the argument goes – because they aren't making any more of it. Lack of supply is the key part of the equation that will keep international buyers paying stratospheric prices for the right properties in high-end areas of central London. And the right properties are apartments rather than houses, with the sort of services that these international buyers are used to in Hong Kong, Qatar, Moscow and any other modern city.

The result is a valuation gap. Apartments in top-flight developments have regularly been achieving prices per sq ft that are double those of houses immediately around them: One Hyde Park, the Candy brothers' development overlooking Hyde Park, and the Lancasters facing Kensington Gardens are good examples. Not surprisingly, developers have taken note – and it is

possible that the supply side of the equation could radically alter over the next few years as a plethora of new developments come online.

At the very top of the market, in the City of Westminster and Kensington and Chelsea, some big schemes are planned. The Chelsea Barracks development is the largest: the 13-acre site will have 448 units, including 123 units of affordable housing. With the planning delays caused by the intervention of Prince Charles, these won't be ready until 2017.

In Mayfair, the old US embassy building, due to be vacated in six years time, will be developed by the Qataris (who own One Hyde Park and the Chelsea Barracks), but this is unlikely to appear on the market until 2020. Near the embassy is the former US Naval headquarters at 20-21 Grosvenor Square, which has been bought by Richard Caring, the

owner of many of the best-known restaurants and clubs in London, including Annabel's and the Ivy. Above what will probably be an upmarket restaurant, there are likely to be 31 flats. Nearby, the Audley Square car park has been bought by

company responsible for some of the biggest prime residential developments of the last 20 years. There are plans for 24 flats to be completed in 2016.

More immediately, there are 97 units on De Vere Gardens, overlooking Kensington Gardens where the building site straddles Kensington Gore. These will be ready in 2013. Further down Kensington High Street is the Commonwealth Institute with 62 units and the old Odeon Cinema with 35 flats and five town houses.

All of these developers are eyeing the reported £6,000 per sq ft that has been achieved in One Hyde Park and hoping some of the fairy dust from that will fall on the sites they are working on.

The reality is that these huge prices were only for the upper floors overlooking the park. The lower floors – and particularly the units overlooking

the tatty office buildings on Knightsbridge are probably selling for a lot less – but information on prices coming out of One Hyde Park tends to be through smoke and mirrors. There is no doubt, however, that the really prime units in this development are special – with their views directly over the park and the services provided both within the building and by the Mandarin Hotel next door.

Few other sites have this to offer and pricing at around £3,500 per sq ft is likely to become normal for other high quality units in the current market. A year is a long time in property – and the market conditions might be very different when all of these projects mature.

It is outside the prime areas that real volume is going to appear over the next few years with projects that dwarf anything done in London in recent memory. The mega-site is

Residential developments

Recently completed or upcoming residential developments in central London

With estimated completion dates where available

Key

● Prime central ● Further afield



2 The Lancasters (completed)



4 Commonwealth Institute (2014) 5 Odeon Cinema



7 Earls Court Exhibition Centre



1 St John's Wood Barracks (2016)



3 De Vere Gardens (2013)



8 Glebe Place (2014)



9 20-21 Grosvenor Square



12 Audley Square House (2016)



11 Centrepoint (2012)



13 One Hyde Park (completed)



14 Chelsea Barracks (2015)*



* Phase 1

Source: FT research

Will London end up as a city familiar to most Americans, where the centre is for business and tourists only?

John Caudwell, the entrepreneur and founder of Phones 4U. He is planning a joint venture with developer John Hunter, formerly of Northacre, the



6 375 Kensington High Street (2013)*



15 Battersea Power Station (2016)*



10 US Embassy (2020)

south of the river and includes Battersea Power Station and New Covent Garden where the US embassy plans to relocate. The whole area is about 450-acres and will contain around 16,000 new homes. To put this in context: there are only up to 3,000 units a year that come on to the market in Kensington and Chelsea and Westminster. It has, however, taken more than 20 years for the Battersea Power Station site to go precisely nowhere. This vast supply is therefore likely to take many years to drip on to the market.

The other huge site covers the area currently occupied by the Earls Court Exhibition Centre – there are 66 acres in all. This will also take a few years to materialise. But to the north of Earls Court on the border with Olympia, and further along Kensington High Street from the better located Commonwealth Institute, is 375 Kensington High Street where

467 apartments are under construction. Asking prices range from £1,500 to £2,000 per sq ft. Many have already been sold off-plan in property shows across Asia.

Underlying this activity is the growing discrepancy in value between commercial and residential use. Offices now make little financial sense when residential values are so high. Premium office buildings such as Covent Garden's Centrepiece, with 34 floors, each with a footprint of around 4,000 sq ft, are likely to be converted into flats. For a long time – particularly in Mayfair – there has been a planning presumption in favour of residential rather than commercial use, a hangover from the days after the war when the City was bombed and the West End took up the office slack. As the Army rationalises out of central London, it is producing windfalls for not just the government, with sites such as the Chelsea

Barracks, but also traditional London organisations, such as the Eyre Estate, which are rumoured to be selling the barracks in St John's Wood to make nearly 120 units.

Though there is still a high demand for the schemes from international buyers looking for a safe store of value, there is a big question as to whether developers will be able to finance projects of such size as the banks shrink their balance sheet. Increasingly, the finance is coming from private equity sources such as Orion, who are financing 10 large units on the site of the old Libyan school in Glebe Place in Chelsea. Equity from pension funds and other institutions is taking the place of bank borrowing. The sheer scale of some sites is going to be a challenge in a deleveraging world – but where there is money to be made, money normally gets found. When, or if, all these developments get built, the volume of apartments in London is set to grow considerably. This must, eventually, have an effect on prices.

The big question for all the developers embarking on projects that stretch over many years is whether London will remain the destiny of choice for the international rich – and the aspirationally rich coming out of Shanghai and Bangalore, who are happy to buy off-plan and sight-unseen – putting down large deposits and stage payments. It is these who will help them bridge the financing gap.

There are further questions about what effect all this international buying will have on London. Who will rent these new apartments that have been bought as investments? And if buyers use these new apartments as pied-à-terres to visit London for a couple of weeks a year, what happens to the fabric of urban living – the shops, cafés and restaurants – that makes the city such an appealing place? Will we end up with a city that would be familiar to most Americans, where the ordinary living gets done in the suburbs and the centre is for business and tourists only?

London is now going through a period of change that might rival the mid 19th-century when railways spawned the sprawling city of today. It will certainly be different, but whether it will be better remains to be seen.

Charlie Ellingworth is a founder and director of Property Vision, the buying agent. Property Vision only works for buyers and has no commercial interest in any of the properties referred to in this article

Additional reporting by Amie Tsang