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THE MARKET

Shopkeepers' Homes in London for Sky-High Prices

The stigma of living above the shop in London has evaporated, thanks to the tastes of overseas buyers

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The Michelin-starred Launceston Place is a 1,345-square-foot, three bedroom apartment on the market for \$4.1 million. *Aylesford International/Hamptons International*

The shops and restaurants of London are integral to the British capital's allure. And the apartments above them are becoming an increasingly popular—even chic—way to live in the city center.

Before the recession, when the market was dominated by domestic buyers, these homes were considered distinctly second rate. There was a stigma attached to living above the shop, which was partly due to the possibility of noise and cooking smells, and partly because of simple prejudice. Many of these properties were built as homes for shopkeepers, not affluent Londoners. These reservations meant that until about four years ago, homes over shops routinely sold for up to 20% below market rate.

All that has changed. These properties are now worth as much—and in some cases a little more—than traditional apartments.



Inside the three-bedroom apartment listed for \$4.1 million. *Aylesford International/Hamptons International*



A bathroom inside the apartment. *Aylesford International/Hamptons International*

"Historically there has always been a premium for living in an entirely residential building," says Peter Wetherell, managing director Mayfair-based real-estate agency Wetherell. "Apartments over shops had a slightly inferior feel. But now retail areas in Mayfair are becoming more exclusive. With two-thirds of the world's leading brands in Mayfair, people no longer see it as living over retail, and instead see it as a lifestyle."

A key reason for this change in attitude is a change in demography. The recession has seen prime central London's real estate morph into a global commodity; overseas buyers are today responsible for more than half of all sales in high-end neighborhoods such as Kensington, Belgravia, Mayfair and Chelsea. These buyers have no qualms about living above shops.

"Overseas buyers do not have the same issues as British buyers," says Alex Michelin, co-founder of boutique developer Finchatton. "In New York everyone lives above retail; it is the same in Paris. Their influx into our midst has been the catalyst for this change and British buyers have begrudgingly bought into that."

One of Mr. Michelin's first homes was above a betting shop—a legal, if unglamorous, place to bet on sports. Mr. Michelin bought the apartment because it was affordable; he now actively seeks out homes above shops in prime areas to redevelop. Late last year, Mr. Michelin's firm sold a four-bedroom apartment above a fashion store in Mount Street, Mayfair, for about \$26 million to a European buyer.

There also has been an element of expediency involved in the reinvention of over-the-shop living. Demand for property in prime central London far exceeds supply, and building sites are scarce, forcing developers to become more flexible about the spaces they use.

A brand name can be an asset. Mr. Wetherell says that in the past, homes over shops in Mayfair were worth 10% less than regular homes, but this gap has now closed. And if an apartment is over a famous brand, Mr. Wetherell believes it can be worth up to 10% more. Even more valuable are homes over famous restaurants, which he calculates can add 20% to a property's price.



A newly updated 1,644-square-foot, three-bedroom, three-bathroom apartment with a private roof terrace is above fashion boutique Scotch + Soda. It is on the market with an asking price of \$4.1 million. *Domus Nova*

Living above a shop has some advantages. Louisa Woodbridge, head of London estate leasing at the Grosvenor Estate, which manages the Duke of Westminster's property portfolio in central London, believes homes over shops promise an "urban village" lifestyle. Living over a shop (as opposed to a restaurant) also means no overnight noise from neighbors as well as a level of security during the day.

These apartments are often larger than their counterparts in residential buildings, because historically they were built on a wider footprint than residential houses. And despite being built for humble shopkeepers, they routinely feature original Victorian and Edwardian fireplaces, high ceilings and cornicing.

There are risks. Sophie Roberts, head of search and acquisitions at Banda Property, recently helped a client buy an apartment above a Notting Hill bookshop. The client, who is British, was able to buy the freehold of the entire building. This means that should the bookshop owner move, the client will be able to select the next tenant.

Owners who simply buy an apartment have no safeguard. In Britain, individual shops are "zoned" into a series of different categories—for example, fast-food outlet, retail shop or restaurant. Permission from the local council is required to change this zoning, but it is possible that a property bought with a boutique beneath it could end up overlooking a fast-food restaurant.

Even if a shop's categorization isn't changed there is nothing—other than the high rents charged in central London—to prevent a boutique from being replaced by a thrift store.



James Rideout, head of apartment sales of Hamptons International in Kensington, advises buyers to research carefully. He cites the case of a developer recently commanding a "staggering" \$2,700 per square foot for a development on one of Kensington's busiest roads. The homes were sold to buyers from Asia and the Middle East, and he fears they face a "terrible shock" when they realize they are on a road busy with shoppers by day, revelers by night, and traffic from cars and buses 24-7.

Mr. Wetherell agrees that buyers need to pick their street carefully but notes that in Mayfair "all the leading prices we have had in the last year" have been on busy commercial streets. "People are blind to the downsides of living over a shop," he says. "What they want is to be associated with the glamour of the brand."

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