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Pope lifts the lid on the Vatican's colossal property empire in London

By Vinjeru Mkandawire 14 March 2020 • 4:00pm

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It's easier for a camel to pass through the eye of a needle than for a rich man to enter the Kingdom of God, so the gospels say. What that might mean for the inhabitants of the Vatican – where the apostolic estate is worth as much as $15bn (£11.9bn) – is unclear, although the Pope insists the Holy See's treasures belong to humanity.

Coinciding with efforts to shed more light on the Vatican's opaque finances following a real estate scandal last year, Pope Francis is lifting the lid on vast sums of wealth held in a secretive investment vehicle based in Finsbury Circus, in the City of London.

British Grolux Investments – whose ties to the Vatican were obscure until a few years ago – has built up a network of prime London properties using cash handed over by Italy's fascist dictator Mussolini.

Public records at Companies House did not disclose the Vatican's connection to the business until 2017. Last week the Catholic Church took a step further into the light by officially confirming its stake in the UK property portfolio is more than 75pc.

British Grolux Investments owns the premises of Italian jewellery brand Bulgari in New Bond Street and a row of shops in Kensington High Street, nestled behind the backstreets of some of the UK's most expensive houses in the UK.

Vatican City recently confirmed its first case of coronavirus Credit: ANDREAS SOLARO/AFP

It previously counted prominent Catholic bankers as directors, including the former Barclays chief executive John Varley, and chairman of the former merchant bank Leopold Joseph Robin Herbert who catered for rich clients including the Rolling Stones.

The firm also owns office blocks in some of London's most expensive districts, such as 30 St James Square, purchased for £15m in 2006 at the height of a property bubble.

Less flashy assets sold by the Vatican-backed investor in recent years include a building in Chichester, a plot of land near Newbury in Berkshire, properties in Essex and Kent and land in the industrial area of Walsall near Birmingham.

Outside the UK, British Grolux Investments owns blocks of flats in Paris and Switzerland. The value of its international estate is thought to exceed more than £500m.

However making miracles with money is not guaranteed for the anointed. For the Vatican, whose crown jewels in the UK are tied to the struggling high street, closing deals has been a challenge, and could be harder still due to the unfolding impact of Covid-19.

High street hell

Three years ago British Grolux Investments instructed estate agency Knight Frank and property consultancy CBRE to find a replacement for Sports Direct which was looking to vacate its shop on Kensington High Street. The markets were still jittery from the UK's vote to leave the European market and the mood among potential tenants had started to sour.

With the blessing of the Vatican, Knight Frank and CBRE immediately got started, drawing up a leasing strategy and launching an extensive tenant audit. Little did they know then that it would take 18 months – and a long, drawn out process – to secure a deal.

A new tenant would join a parade of bespoke travel companies, as well as high end outdoor and fitness retailers, selling fashionable gear for cliff jumps and volcano trekking during the school holidays.

For local residents, the appeal is clear. "Retail is far from dead," says Tomer Aboody, director of property lender MT Finance. "Slowly consumers are returning to support the local shops and the local traders and there is still money to be made in prime locations."

Further along the high street, shoppers would find upmarket grocery chain Whole Foods – frequented by members of the Royal family – as well as pâtisseries with freshly-baked croissants.

A month later Knight Frank and CBRE began initial work on a discreet, six-month marketing campaign for the Kensington property. However it quickly became clear that few retailers were willing to take on additional space in a deteriorating market.

One real estate expert says that the lack of interest in an area once seen as part of London's cluster of luxury retail destinations demonstrates the pressure on the market.

"Kensington High Street had its glory days in the eighties and the nineties but in recent years has seen a shift of customers and spend to the West End in places like Bond Street and Regent Street," the source says. "Shoppers have also flocked to White City, just north of Shepherd's Bush."

Undeterred, the firms regrouped and launched an even bigger campaign to entice a new tenant.

Drafting a wider pool of possible buyers, brochures and covering letters were circulated far and wide. Desperate for offers, they also invited more than 50 retail agents to a breakfast event at the Design Museum to market the space.

Under pressure to find a buyer, Knight Frank and CBRE eventually began to look elsewhere. With the leisure market – particularly growing interest in fitness and personal trainers – showing signs of growth, gym operators were identified as an appealing option.

An offer came at the end of that year from personal training provider Roar Fitness, which has opened gyms across the capital. It would take nearly a year to agree on the terms.

The difficulty of finding a new tenant for one of London's most prestigious locations reflects the upheaval sweeping across Britain's high streets as retailers battle rising costs and tough competition from online players.

David Fox, co-head of retail agency at Colliers International, says the crisis began during the crash of 2008-2009 which created large holes in consumer spending.

“The market had effectively built far too many shops for the climate. Many retailers realised they had too much space and were paying too much rent, on top of business rates,” he says.

Fox says the retail crunch has had lasting effects on the property market. “Today the landlords need to be ultra-competitive to let premises. They have to incentivise deals to get tenants interested,” he says.

The result has been high vacancy rates across the country. “While the former industrialised blue collar towns have borne the brunt of it, the ripple effect is now spreading to the university towns, which previously would have been seen as bullet-proof,” Fox says.

Luxury properties held by British Grolux Investments, including its store on New Bond Street, could also come under pressure from the spread of coronavirus and the expected fall in the number of tourists.

“Ultimately, the luxury market has probably held up better than most – certainly better than the lower-mid market where we’ve seen so many corporate failures and restructurings,” explains Fox.

“London is a global city so you will always find that the big luxury groups will want to maintain a presence,” he adds.

However as the virus spreads, big luxury groups and estate agents are bracing themselves for the latest cold spell to hit the prime London market. Fox admits, “I think we’re in for a fairly rocky spring and early summer.”