PORTFOLIO.

The inner London borough of Kensington and Chelsea first captured the attention of elite property buyers in the early 17th century. Its green fields, clean air and proximity to the capital made it an appealing location for a nobleman to build a stately home and some 400 years later, Kensington and Chelsea's aristocratic character is very much intact.

Eaton Square, in the borough's Belgravia district, was declared the most expensive street in England in December last year. Buyers hoping to acquire one of its white stucco-fronted mansions or apartments should be prepared to part with an average of $22 million. Away from Eaton Square, the average price of a home in Kensington and Chelsea is nearly $1.8 million with larger, semi-detached properties fetching $8 million.

Kensington and Chelsea is no longer an oasis on the fringes of the capital, although anyone walking its streets at night could be forgiven for thinking they had stumbled into a sleepy suburb. Silent roads and darkened windows are a familiar sight across some of the priciest neighbourhoods. But homeowners here are not simply heading to bed early or working late. Many live abroad and are watching from afar as their London assets gather value.

Nearly 20,000 London homes went unoccupied for more than six months last year, according to figures from the Department for Communities and Local Government. And the borough with the greatest number of 'ghost homes' is none other than Kensington and Chelsea. About 1,400 dwellings in the sought-after area are either second homes or 'buy-to-leave' properties purchased purely as investments.

London's most expensive areas, such as Eaton Square and Knightsbridge, see transactions in the tens of millions of pounds

Research by Lloyds Bank found the average house price in Kensington and Chelsea skyrocketed from $386,000 in 1996 to more than $2.3 million last year. Similar increases were recorded in the capital's other high-end boroughs: Westminster and Camden saw increases of $1.5 million and $1.1 million respectively. It is little wonder then that foreign and domestic buyers were eager to get their hands on the city's premium properties, particularly as the UK pre-Brexit offered a stable political and economic climate. Investors in the capital felt comfortable leaving their fortunes in a historic townhouse or a luxury apartment.

"London has always been seen as a safe haven, both in terms of its politics and rule of law," says Nicholas Finn, executive director at Garrington, a UK property search consultancy with offices in London's Mayfair district. "There has always been that natural safety and comfort with London property and the fairly easy process of purchasing has also made it attractive."

But London's air of stability was somewhat harmed when the UK voted to leave the European Union last June. In the year since the referendum, the volume of transactions in London's property market has dropped considerably and property firms are feeling the strain. Foxtons, which operates in some of the capital's premium postcodes, reported an 11.4 per cent fall in revenues last year, blaming the Brexit vote for having "brought transactional activity in London to a halt."

The capital's luxury property market had already begun to stagnate before the referendum, however. Buyers of second homes and investment properties were faced with a three per cent increase in the stamp duty land tax from April of last year. The tax affects anyone buying land or property at a cost of more than $162,000 for residential properties and $194,000 for non-residential homes. There was a rush to complete transactions before the higher rate went into effect, with residential property advisory firm »

London Central Portfolio estimating that 25 per cent of all sales during 2016 took place in March. Despite the surge in activity, though, sales in prime central neighbourhoods were down 21 per cent in the 12 months from December 2015 to December last year.

"Transactions above $6 million are pretty rare today," says Tim Mycock, development director at Reditum Capital, a finance provider for property transactions in the UK. "The people who would have traditionally bought these types of assets would have been high net worth individuals from around the world. Having access to the EU and the markets there is of interest to these buyers. At the moment they are waiting to see what sort of deal is agreed between the UK and the EU."

In the meantime, sellers are having to entice hesitant investors with lower prices to offset Brexit fears and the impact of increased stamp duty. In the year up to April, the average price of a London home dropped 1.5 per cent according to Rightmove, an online property portal. The decline has been felt most sharply in the inner boroughs, where average house prices fell year-on-year by 4.2 per cent. But if the capital's central high-end neighbourhoods aren't delivering swift price appreciation, buyers looking for income or capital gains can look elsewhere: the city's up-and-coming outer boroughs.

In the mid-19th century, when many of London's grand terraced mansions were built, construction work was also taking place in the city's Royal Docks. Located in what is now the eastern borough of Newham, the docks were once a major hub for trade and global commerce. But time wasn't as kind to the docks as it was to the housing stock in Belgravia and the advent of container cargo forced them to close in 1981. Soaring unemployment and poverty followed, and a 2010 government report named Newham as one of England's 20 most deprived districts.

Strange, then, that in 2016 the borough was, in terms of house prices, England's fastest-growing local authority area. But thanks to an extensive regeneration programme, which included a successful bid to bring the primary venue for the 2012 Olympics to Newham's Stratford district, the borough is on the up. What is more, investors hoping to get a foothold in London's buy-to-let property market should note east London has some of the UK's best rental returns. In April, Newham and nearby Barking and Dagenham were estimated to yield the highest returns in the city at 4.9 and 5.5 per cent respectively.

But speed is of the essence. Buyers looking to cash in on regeneration should identify potential hotspots before markets become overheated. Thankfully, it does not take a crystal ball to spot areas where property is likely to appreciate in value or which will have high rental demand. Good public transport links, for example, will make a neighbourhood attractive to London's many commuters. The Crossrail line, which will connect London's western suburbs to their eastern counterparts via the city centre, is currently under construction and due to open next year. Commercial property and investment management firm JLL has estimated residential prices around Crossrail stations could rise by up to 16 per cent by 2020.

Investors should also pay attention to the movements of young businesses in the tech and creative industries. Start-ups often cannot afford commercial rent in London's inner boroughs and will look to less expensive areas. The prime example is Shoreditch, a now-hip neighbourhood in the east London borough of Hackney, which saw 15,620 new businesses set up between 2013 and 2014.

And where businesses go, residential buyers and renters follow. Shoreditch saw a 46 per cent increase in house prices between 2012 and 2015, according to property consultancy firm Knight Frank. Keeping an eye on the commercial rental habits of the capital's young innovators is a good way to foresee the next major growth area in residential property. In today's terms, one key indicator is the appearance of co-working spaces, open-plan or shared offices with flexible rental agreements that make them ideal for freelancers and young companies.

"Co-working is increasing in popularity with a range of businesses, from start-ups to more established firms, requiring the flexibility to expand or retract their occupational space and overheads at short notice," says Toby Bidwell, operational director of TCN UK, a commercial property developer which regenerates disused buildings as office space. "Location is key and with the cost of renting in zone one [in central London] reaching record heights, we find our locations in [outlying] zones two and three increasingly popular, due to great transport links into central London."

Do expanding investment opportunities across London spell the death of buy-to-leave purchases in the city's prime central areas? Value in historically desirable neighbourhoods isn't going to vanish overnight, especially as the pound falls in currency markets. Foreign buyers dreaming of a home in central London could well find currency fluctuations mean a property that was once out-of-bounds is now well within budget. For example, an American buyer moving to prime central London would have received a discount of 21 per cent between the EU referendum and February this year, thanks to the falling value of sterling, according to Knight Frank figures. Buyers from China would have seen a 17 per cent saving while Russians would have saved 28 per cent.

"Property forecasts are notoriously tricky to get right in the current climate," says Camilla Dell, managing partner at Black Brick, an independent property buying agency. "Most forecasters, however, are predicting London property prices will remain flat over the next two years while the UK negotiates its exit with the EU. We think the lower end of the market under $1.2 million will

increase more than properties above $2.5 million, due to more favourable stamp duty and supply-and-demand dynamics."

Post-Brexit London is quickly becoming a buyer's market. Properties in the city's prime central postcodes were selling at an average of 9.1 per cent lower than their listed asking price in the first quarter of this year, according to property data tracker LonRes. Foreign investors looking to cash in on the low-value pound could also find sellers are more willing to reduce prices to shift homes as transaction volumes cool. Given these favourable conditions, foreign buyers should assess their property requirements and look to London. In a city of nine million, there are many options for investment.

While price growth cools and the number of transactions drops in prime neighbourhoods, opportunities open up elsewhere. "There's always value in the medium to long term within the London property market in all areas," says Ben Wilson, director of Residence One, a luxury property development firm. "London provides property at all price points, from $125,000 studios in Stratford to $100 million houses in super-prime locations. It depends on an individual's requirements and whether the focus is on income or capital gain but there really is something for every investor."

As the UK prepares to go to the polls on June 8, property buyers are holding their breath but a small majority are not hanging on to their cash. A survey by online estate agency eMoov found that 57 per cent of property sellers and 59 per cent of property buyers still intended to go ahead with planned transactions ahead of the general election. The British prime minister Theresa May called the election with just eight weeks' notice so any election-related uncertainty that does shake property markets should be shortlived.

"Having a snap election means any hesitancy from property buyers or vendors will have much less of an impact," says Penny Mosgrove, chief executive at Quintessentially Estates, a global property search service headquartered in Belgravia. "It could be a positive decision for the property market in that it will bring some certainty ahead of the Brexit negotiations."

Top: *Crossrail will change the dynamics of the central city property market* **Above:** *properties for sale in Chelsea*

Regardless of the terms of the UK's exit from the EU, London will remain an important city on the global stage. Even a 'hard' Brexit (in which the UK reaches no agreement with the EU on issues such as free trade and the free movement of people) will not diminish the grandeur of properties in its prime central districts. Investors concerned about the long-term impact of current political turbulence should rest assured: London's reputation as a world class property hub wasn't built in a day. And it won't be demolished in a hurry.