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London prices fall as the crunch tightens, but top-end holds firm

Key Highlights:

- Prices for prime central London residential property fell by 1.5% in May - the fastest rate of decline since the early 1990s
- Annualised growth has fallen to 12.8%, down from nearly 38% in August last year
- The weakest performance last month was seen in the sub £1 million sector (-2.3%) and the £1 million to £2.5 million bracket (-2.2%)
- The strongest performance was again the top end of the market - £10 million+ properties saw no change in value
- Overall sales volumes in central London are almost 50% lower year on year, however £10 million+ sales volumes are up 40% over the same period

Liam Bailey, Head of Residential Research at Knight Frank comments:

The performance of the central London market has weakened notably over the past two months. Up until April, London appeared to have escaped the worst effects of the credit crunch, but with the mortgage market in growing difficulties the weakness seen across the wider UK market is now spreading to the prime London market.

Prices fell last month by 1.5%. On its own this is a poor result, however the more important figures are those reflecting sales activity. Sales are down almost 50% (May 2007 – May 2008) across central London and this where the effects of the crunch are being felt most keenly. Purchasers are struggling to access finance at the current time and combined with weaker sentiment this has led to a slump in sales.

There is some positive news. While sales volumes are down, the number of purchasers registering to buy is lower - but only by 20%. This suggests that should the mortgage market recover later in the year the property market should see a recovery in activity.

The super-prime £10 million+ market is the only true hot-spot. Sales of properties priced at this level are 40% higher over the past three months compared with the same period a year earlier. This market is not immune from a downturn, but its support from international buyers, who are in part funded by oil and other commodity wealth, means the prospects for super prime are still strong.

Overall, our view is that prices for prime central London property will slide further in 2008. Attempting to provide detailed forecasts is becoming increasingly difficult, however we believe that a fall of 5% is probably a best-case scenario for central London this year. With no improvement in the mortgage market this decline could easily be well into double figures.

Knight Frank, Prime Central London Index, May 2008

Month	Annual % change	6 monthly % change	3 monthly % change	Monthly % change
Jun 07	34.5%	18.0%	8.5%	3.1%
Jul 07	36.4%	19.1%	9.8%	3.9%
Aug 07	37.9%	18.5%	9.4%	2.1%
Sep 07	36.5%	16.6%	7.4%	1.2%
Oct 07	34.1%	13.8%	3.6%	0.3%
Nov 07	30.6%	11.2%	1.6%	0.1%
Dec 07	28.6%	8.9%	1.4%	1.0%
Jan 08	26.2%	6.0%	2.3%	1.1%
Feb 08	23.8%	4.4%	2.8%	0.6%
Mar 08	20.4%	3.3%	1.8%	0.1%
Apr 08	17.3%	3.1%	0.8%	0.1%
May 08	12.8%	1.4%	-1.3%	-1.5%

Source: Knight Frank (April 2008)

Ends

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Notes to Editors

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Knight Frank area definitions

Prime central London is taken to include: Mayfair, St John's Wood, Regent's Park, Kensington, Notting Hill, Chelsea, Knightsbridge, Belgravia and the South Bank (from Westminster Bridge to Tower Bridge/Shad Thames)

Prime London is taken to include all the above plus: Canary Wharf, Hampstead, Richmond, Wandsworth, Wapping and Wimbledon.