

Date: 1 April 2008

Belt tightening slows growth yet further in Prime Central London

Key Highlights:

- **Growth in prime central London residential prices slowed further during March, with prices rising only 0.1% over the month**
- **Slower monthly growth is feeding through to sharply lower annualised growth rates, with price standing 20.4% higher in the year to March, the slowest growth since June 2006**
- **Sales volumes across prime London have fallen by 20% year on year during the first quarter of 2008**

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

“The pattern of slower monthly growth rates seen over the last five months continued into March with our prime central London index recording near even growth of just 0.1%, the same level as November 2007 and the lowest level since January 2005. This slowdown was also reflected in our quarterly figure which show prices of properties in this sector, the traditional flagship for the UK property market, increasing by only 1.8%.

“Although our index shows that property in prime central London increased in value by 20.4% in the year to the end of March the overall trend is one of steady decline in growth. The explanation for this pattern of weakening growth is to be found in the continuing pressure being felt in the international money markets; a problem compounded by problems at various financial institutions on both sides of the Atlantic in recent weeks. However, it also reflects growing fears for job security in the City. This was given added emphasis by a forecast from a recent from the CBI that predicted 10,000 jobs in the financial services industry could be lost in the next three months; a sector that is the historic driver for the prime central London housing market.

“This time last month we were anticipating the Budget and the Chancellor’s statement on changes to the rules governing non-dom taxation. Following considerable lobbying a greatly modified set of proposals were presented on 12 March which this has done much to ease fears of the mass sell-up by those from this in this sector.

“News of a change in base rates next week will be more eagerly anticipated than usual, especially after minutes from the last Monetary Policy Committee (MPC) meeting revealed a softening stance on interest rates, even

though they remained unchanged. Since then events, not least comments by the Governor of the Bank of England (BoE) last week, offer hope that a cut in interests rates may be on the cards. This would be most welcome. However, if the housing market is to be reinvigorated we contend that the BoE needs to reduce rates to at least 4.50% by the end of the year. That said, lowering interest rates while combating inflationary pressures caused by rising energy, oil and basic commodities prices will be a hard economic circle to square.

“As to the future we don’t foresee a collapse in the prime central London market, with the proviso that this assessment is based on more normalised conditions in the UK mortgage market over the next quarter.”

Knight Frank, Prime Central London Index, March 2008

Month	Annual % change	6 monthly % change	3 monthly % change	Monthly % change
Apr-07	32.8%	17.8%	8.4%	2.7%
May-07	33.0%	17.5%	8.3%	2.4%
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%

Source: Knight Frank (March 2008)

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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.