Knight Frank

News Release

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Knight Frank Prime Central London Index – January 2009

Key highlights

- Prime London residential prices fell 3.7% in January 2009, the second highest monthly decline on record
- Overall prime London prices have fallen 21.4% since the March 2008 peak, the important £1m to £2.5m sector has fallen 25.3% over the same period
- The super-prime £10m bracket is catching up with price declines after a period of resilience up to last August - losing 20% in value in the five months since September
- Knight Frank Research has pushed its forecast for peak to trough pricing in prime central London down from 30% to 35% - it still expects to hit the bottom of the market in terms of prices in mid 2009
- There is early evidence that the market is seeing increased activity from domestic and international purchasers - viewing levels have risen substantially - up nearly 65% in January 2009 compared to the same month in 2008
- Demand from foreign purchasers has risen substantially with a year on year increase in foreign buyers registering in January of 35%, led by Middle East buyers (52%) and European buyers (38%) - with a particularly strong Italian (43%), French (49%) and Norwegian (51%) showing
- The markets seeing greatest growth in viewing and applicant activity are led by the core of Mayfair, Knightsbridge, Belgravia and Chelsea - viewings here are up over 80% on a year on year basis

Liam Bailey, head of residential research, Knight Frank, commented:

"As we move into 2009 we are now almost 18 months into the credit crunch and the resulting economic downturn, both of which have had a rapid and significant impact on London's residential market.

"In early 2008 it was generally held that London's unique situation - with very strong demand set against weak supply - would help it escape the worst of the housing market downturn.

“Even when it became apparent that this was not the case, and the majority of the market was in sharp decline, the robust health of the super-prime sector led many to assume that the most expensive streets in the world's most expensive city would remain unscathed by falling prices.

“As we reached late summer last year, it became apparent that no part of the market was immune. Every area and type of property was hit by price falls and rapidly diminishing sales volumes.

“Our Prime Central London index and the more mainstream market trackers paint the same picture - prices are down by a minimum of 20%. Our own view of the peak to trough price decline in central London has been pushed out to 35%, although we accept that even this figure is in danger of being surpassed by the early summer. We would note that there is evidence that the prime new build sector in central London has seen price adjustments on at least this scale already, albeit in many cases even these new lower prices are yet to be successfully tested in the market.

“The primary reason for the unprecedented speed and level of decline is obvious in retrospect: the sudden restriction of mortgage finance. This factor is continuing to cause problems for the housing market and the wider economy – from buyers only being able to take advantage of record low interest rates if they have a 30% or 40% deposit, to businesses struggling to survive as they have limited access to only very expensive credit.

“Ironically, a more positive future outlook for the market to some extent depends on the speed of the correction. If we are to have a big price fall, it is much better that it happens quickly – this will prove painful for some, but is better for the majority in the longer term. In addition, the rapid fall in capital values has more than offset the recent decline in rents, meaning that rental yields are slowly increasing and investors are beginning to look very closely at the market.

“As a consequence of this new climate of vendor realism, there are indications that buyer interest is beginning to increase. We expect transactions to increase very gradually throughout the year in prime markets, and as a result price falls should begin to level out towards the end of 2009, although 2010 is likely to see prices move sideways at best.

“If the weakness of sterling continues, it will help to bolster demand from the foreign super-rich – partially compensating for the reduced earning ability of many City-based buyers. While the Capital might seem increasingly attractive to domestic buyers, the opportunities available look even better value from overseas as a result of the dramatic decline in the value of the pound.

“The weakness of sterling is unlikely to abate in the near future, especially as the UK base rate is set to fall further. However, currency markets are highly changeable and there is a general expectation that the Euro, in particular, will weaken later this year. As a result, many European buyers believe that there will only be a limited window in which to buy prime property at bargain prices. The prospect of a more expensive pound also provides them with a hedge against further falls in prices during the course of 2009”.

Knight Frank, Prime Central London Index, January 2009

	KF Prime Central London Index	12 month % change	6 month % change	three monthly % change	monthly % change
Jan-08	4,764.4	26.2%	6.0%	2.3%	1.1%
Feb-08	4,792.4	23.8%	4.4%	2.8%	0.6%
Mar-08	4,796.6	20.4%	3.3%	1.8%	0.1%
Apr-08	4,739.7	15.8%	1.8%	-0.5%	-1.2%
May-08	4,660.2	11.2%	-0.1%	-2.8%	-1.7%
Jun-08	4,577.3	5.8%	-2.8%	-4.6%	-1.8%
Jul-08	4,491.4	-0.1%	-5.7%	-5.2%	-1.9%
Aug-08	4,414.5	-3.8%	-7.9%	-5.3%	-1.7%
Sep-08	4,321.3	-7.0%	-9.9%	-5.6%	-2.1%
Oct-08	4,152.6	-10.8%	-12.4%	-7.5%	-3.9%
Nov-08	4,003.2	-14.1%	-14.1%	-9.3%	-3.6%
Dec-08	3,914.6	-16.9%	-14.5%	-9.4%	-2.2%
Jan-09	3,769.5	-20.9%	-16.1%	-9.2%	-3.7%

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Notes to Editors
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Knight Frank area definitions
Prime central London is taken to include: Mayfair, Marylebone, 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, Fulham, Richmond, Wandsworth, Wapping and Wimbledon.