A lettings lottery...

People are still keen to rent, but the rules are changing for home owners. How might it affect you, asks Graham Norwood

PRIME Minister David Cameron and his wife Samantha may not be looking forward to swapping their contemporary Notting Hill home for a less stylish flat above No. 11 Downing Street — but the move could save them about £100,000 per year.

The couple and their children Nancy, six, and Elwen, four — plus the new baby due in September — will live free of charge in the four-bedroom flat on the first floor of No. 11. It is described as spacious with a large kitchen and living room, high ornate ceilings and a view over Horse Guards Parade.

The family will also have use of the rose garden, stretching behind the terrace of homes at Downing Street, and the scene of the 'love-in' press conference held by Mr Cameron and his deputy, Nick Clegg, the day after they took office.

The Camerons' own family home, a mid-terrace four-bedroom property in a leafy conservation area in trendy Notting Hill, will be left empty. But it's perfect for renting out — especially to foreign executives, the backbone of Central London's rental market.

At least one local lettings agency, Faron Sutaria, has slipped lettings information through the Camerons' letterbox and nearby agents have estimated the achievable weekly rent to be between £1,600 and £2,000 — the equivalent of £83,200 to £104,000 a year.

The Camerons bought the house in 2006 for £1.1 million. It has since been extended and fitted with eco-features, including a 6ft domestic wind turbine and solar panels.

The family also owns a property built from honey-coloured Cotswold stone, in the Oxfordshire village of Dean, which is in the PM's Witney constituency.

Experts say the Kensington house would be snapped up in today's rental market, particularly because demand outstrips supply.

'Homes such as the Camerons', which have been modernised, are especially popular. Tenants love wooden floors, halogen lights, plasma TV screens, doors which open onto the garden and power showers,' says Lisa Simon, of John D. Wood estate agent.

Because the Camerons do not own their grace-and-favour flat in Downing Street, the Notting Hill property will count as their principal home. The situation is more complicated for hundreds of thousands of other second-home owners and buy-to-let investors, many of whom will be hammered if Capital Gains Tax rises.

This week, the Government admitted that CGT, currently levied at 18 per cent of profits on holiday homes and buy-to-let properties, will be increased — perhaps to as much as 40 or 50 per cent — in the emergency budget on June 22.

Cameron, who has also ditched the Conservative plan to raise the inheritance tax threshold to £1 million, says the CGT hike is part of his 'fairness agenda' to help pay for income tax reductions for the lower paid as promised by the Liberal Democrats. No one knows when the higher CGT rate will kick in, but estate agents fear landlords and second home owners — anticipating it might take effect within days of the budget — will sell their buy-to-lets and holiday homes in the next month to beat the increase.

'Not only would a "fire sale" of properties lead to price falls, but tenants would ultimately lose out since a 40 per cent or higher level of CGT will deter prospective investors from buying.

'This could have a devastating effect on the rental market,' explains Dan Channer, of Finders' Keepers, one of Britain's largest independent lettings agencies.

CAROLINE KAVANAGH, of Badger Holdings, which owns Townends and Regents lettings agencies, says of the proposal: 'Have they gone mad? If this rise in CGT goes ahead, many tenants could potentially be left fighting for properties as landlords are forced to sell.

'Remember, there are investors that don't have a big property portfolio but use their rental property to fund their retirement by subsidising their pensions.'

This tax bombshell comes after a boom period for the lettings market.

The Royal Institution of Chartered Surveyors (RICS) says for more than a year the trend in all areas has been a fall in the number of homes to let, but more people looking to rent.

Demand is strongest in central London, where some agents are reporting rent rises of 15 per cent or 20 per cent in the past six months alone.

'If demand stays strong, which it's likely to as many first-time buyers are still finding themselves priced out of the market, then rents should continue to rise as would-be tenants compete for fewer properties,' says RICS spokesman Jeremy Leaf.

Research by lettings specialists Savills and website Globrix has analysed lettings in 15 key locations. They have found that yields — that is, the proportion of the capital value of a property recovered annually in rent — are rising in general, but vary by property type. For example, the typical one-bedroom flat would get a 6 per cent yield for the owner, whereas houses, depending on their size and location, would return 3.8 per cent to 5.4 per cent.

Until now, rent has been the icing on the cake for anyone letting out a buy-to-let or holiday home, as their main financial incentive was capital appreciation when they sold.

If Capital Gains Tax soars as expected, rental income may be all they have to look forward to — if they buy an investment property or holiday home at all.

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Picture: IAN MCILGORM

Relocating: The Camerons are moving out of their family home in Notting Hill

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