University College London
Faculty of the Built Environment
Bartlett School of Planning

Overseas Property:
An Answer to the Pensions Crisis

Sylvain Van de Weyer

Dissertation

MSc European Property Development and Planning

September 2007

Table of Contents:

Introduction…………………………………………………........ Page 3

Part 1: Crisis………………………………………………….… Page 5

1.1. The Paradox of Taxation……………………. Page 5
1.2. The Paradox of Regulation………………….. Page 7
1.3. The Paradox of Passivity…………………….. Page 9
1.4. The Paradox of Thrift...……………………... Page 10
1.5. The Paradox of Yields……………………….. Page 12

Part 2: Resolution…………………………………………….… Page 14

2.1. The Peculiarity of Property…………………. Page 14
2.2. Beyond the State…………………………….. Page 15
2.3. The Amateur Professional…………………... Page 17
2.4. Saving Through Property...………...……….. Page 19
2.5. Raising the Yield…………………………….. Page 21

Part 3: Pensions……………………………………………….…Page 25

3.1. The SIPP……………………..………………. Page 25
3.2. SIPP Rules…….…………………………….. Page 27
3.3. Overseas Property SIPP...…………………... Page 29
3.4. In Or Out………………..………...……….. Page 31
3.5. Ricardo Revisited..………………………….. Page 32

Bibliography………………………………………………….… Page 34

Introduction

Two centuries ago the founding father of rigorous economic analysis, David Ricardo[1], argued that land is unique type of asset, subject to forces quite different from those determining other prices; and he sought to show that these forces make land a uniquely good long-term investment. In life, he even practised what he preached, using the profits that he had accumulated as a London banker to buy a large estate in Norfolk.

In modern economic, Ricardo has often been deride for his theory. The theory of 'efficient markets'[2] tells them that the underlying returns on all kinds of assets, adjusted for risk, will tend to equate; so land is just one asset amongst many. But most modern English men and women, inexpert in economics, seem to be closet Ricardians in their behaviour, believing that money tied up in 'bricks and mortar' is especially secure and profitable. And they too practise what they preach, regarding property investment as the best way of providing for their old age. Thus in the past decade growing numbers of people on quite modest incomes have purchased second properties within Britain[3], using the rental income to cover the mortgage payments; and even greater numbers have purchased houses for their own use which are far larger than they would otherwise want or require, believing that they can provide for their retirement by 'trading down'. In addition, perhaps two or three millions – the exact number is unknown – have bought properties abroad, not only as holiday homes, but as long-term investments.

This paper will argue that Ricardo and his present-day disciples are right. More particularly, it will propose that overseas property offers one answer – and perhaps the only answer – to the crisis that now confronts UK pensions. The first part will analyze the underlying causes of the pensions crisis, pointing to five paradoxes in which retirement saving is trapped. The second part will show how overseas property offers

[1] Ricardo, David, *Principles of Political Economy and Taxation* (London, G. Bell & Sons, 1817).
[2] Fama, Eugene, *Efficient Capital Markets: a Review of Theory and Empirical Work* (Philadelphia, Journal of Finance, May 1970).
[3] Council of Mortgage Lenders website (www.cml.org.uk), accessed 2 August 2007. In 1998 the number of 'buy-to-let' mortgages was 28,000, and in 2006 it was 850,000.

an escape from these paradoxes. The final part will describe a particular way in which the current law relating to pensions can be used to facilitate such an escape.

Part 1: The Crisis

1.1. The Paradox of Taxation

The Labour politician Aneurin Bevan, who figured prominently in the post-war Labour government, is quoted as having joked that National Insurance is a giant fraud[4]. Most people assumed, so he believed, that their weekly contributions, deducted from their wage packets, went into some giant fund, which was invested by expert Whitehall officials on their behalf; then, when they reached retirement, a small portion of these investments would be liquidated to pay for their pension.

Whether or not the electorate was successfully deceived half a century ago can never be known for sure. Today, most people are only too aware that National Insurance in general, and the state pension in particular, operate on a 'pay-as-you-go' basis, with current receipts being used to meet current liabilities. Indeed, the "fraud" was finally and brutally exposed in the 1981[5], when the Thatcher government decided to stop linking the state pension to the wage index, and link it to the price index. The reason given was that a wage-linked state pension would place an unsustainable burden on future taxpayers.

As a result of that change in index-linking, the state pension as a proportion of average earnings has gradually fallen[6]. The consequence is that anyone dependent on the state pension alone now counts as living in relative poverty. The recent Turner Report[7] recommended restoring the link with the wage index in order to lift state pensioners out of poverty. But the then Chancellor, now the Prime Minister, refused to give any such undertaking, for fear that Mrs Thatcher's reasoning is even more powerful today now than it was two decades ago. Longer life expectancy, combined with a birth rate that hovers at or below the replacement rate, means that the

---

[4] Pepper, FS, *20th Century Quotations* (London, Sphere Publications, 1984).
[5] Crawford, Ian and Smith, Zoe *Distributional Aspects of Inflation* (Institute of Fiscal Studies, London 2002).
[6] Smith, Sarah *UK State Pensions* (Economic Review, 18(3), February 2001). The state pensions as a proportion of male average earnings was 20% in 1981, and was 15% in 2006.
[7] Turner, Adair, *A New Pensions Settlement for the Twenty-First Century: The Second Report of the Pensions Commission* (Pensions Commission website, www.pensionscommission.org.uk, TSO, 2005).

proportion of the population above the present retirement age is set to grow shapely[8]. So a pay-as-you-go state system, in which the taxes of those in work fund those in retirement, will become ever harder to sustain.

At the heart of Mrs Thatcher's original decision, and of the continuing refusal to alter it, is a paradox that was famously highlighted by the 'Laffer curve'. Laffer[9] made the simple point that, just as a tax rate of zero percent yields zero tax revenue, so does a tax rate of a hundred percent, since it will induce people to stop working. It follows that, above a certain level, rising tax rates will reduce tax revenues by reducing incentives; and the effects of high tax rates will reduce revenues cumulatively by lowering the rate of economic growth. Due to the time lags involved, it is impossible to know for certain the tax rate that will maximize long-term revenues; but there is a widespread consensus that it is no higher than around 40% of GDP – which is the current rate in UK – and is probably significantly lower[10].

Although the state pension is only one of many demands on tax revenues, however, it is still very substantial[11]. Therefore, any significant rise in the state pension, without a similar reduction in government expenditure in other areas, would be likely to lead to a long-term reduction in tax revenues, or at least a constraint on their increase. This might, in turn, force governments eventually to reduce the pension again. Moreover, this paradox is likely to become more acute over the coming decades, as people live longer and historically low birth rates cause the proportion of the population above retirement age to increase. Of course, raising the retirement age would help. Yet if life expectancy continues to rise by about two years in every decade[12], as it has been doing, then the retirement age would have to rise very substantially to have a

---

[8] Smith, Chris *et al, Focus on People and Migration – Chapter Four: The Changing Age Structure of the UK Population* (Office for National Statistics, 2005). The proportion of the population above the current retirement age was 16% in 2004, and is projected to rise to 25% in 2034.

[9] Laffer, Arthur, *Supply Side Economics: Financial Decision-making for the 1980s* (Glenview Illinois, Scott Foresman, 1983).

[10] Myles, GD, *Taxation, Economic Growth and the Double Dividend: Report to the Standing Advisory Committee on Trunk Road Assessment* (London, Department for Environment, Transport and the Regions, 27 August 2004).

[11] HM Treasury, *Long-term Public Finance Report: An Analysis of Fiscal Sustainability* (London, December 2005). State pensions accounted in 2005 for 3.6% of public expenditure; and, if they remain index-linked to prices, are predicted to rise by 2055 to 4.6%.

[12] Office of National Statistics website (www.statistics.gov.uk, accessed on 20 August 2007). UK Government Statistics website. Life expectancy at birth in 1981 was 71 for males and 77 for females, and in 2001 was 76 for males and 81 for females.

significant impact; the proposal contained in the Turner report, in which the retirement age would rise to 68 by 2044, would hardly make a dent.

1.2. The Paradox of Regulation

Mrs Thatcher wished to give notice that henceforth individuals should take increasing responsibility for their own retirement. In order to do this the state has taken various measure to encourage pension saving, by offering a full Income Tax on money contributed to a pension scheme, and exemption from Income Tax and Capital Gains Tax on money that accumulates.

However, to gain these advantages a pension scheme must receive statutory approval. Thus, this allows the government to set the rules by which pension schemes operate[13]. As a result pension saving has become entangled in a dense regulatory thicket. The stated purpose of each new rule has almost invariably been to protect people's pension savings. But the law of unintended consequences, in which by trying to suppress one evil the governments creates even greater evils, applies with a particular vengeance to pensions. As a result, in the words of Anatole Kaletsky: 'Britain's pension and life insurance industries have been destroyed by Government, [and] the damage was done by regulation.'[14].

There are three pieces of regulation in particular that have caused the greatest harm. The first is the Minimum Funding Requirement (MFR), contained in Sections 56-61 of the Pensions Act 1995. These seem to have been introduced, in part at least, as a response to the scandal surrounding the collapse of Robert Maxwell's financial empire. MFR requires an occupational pension scheme to be at all times 100% funded, so that, if all members simultaneously wished to move their pensions elsewhere at the 'cash equivalent transfer value', the scheme would have sufficient funds to allow this. The consequence has been to force pension schemes to sell equities, and to buy bonds with relatively near redemption dates.

[13] HM Revenue and Customs website (www.hmrc.gov.uk, accessed on 21 August 2007).
[14] Kaletsky, A. If Brown wants the city to love him, here's a list of sweeties to hand out. 2006. *The Times* (19 October 2006).

The second is the introduction by the Accounting Standards Board, a statutory body, of FRS 17, setting out the way in which pension scheme accounts should be formulated; after a long transition period, FRS17 became fully effective at the beginning of 2005. This requires future pension fund liabilities to be fully recognized, and discounted by a low-risk corporate bond yield. The result is that, in order to be sure of appearing solvent, pension schemes must invest in low-risk bonds, thus, accentuating the investment policy already imposed by MFR.

The third is the Trustees Act 2000. Sections 3-5, applied to pensions, implicitly require pension scheme trustees to be highly risk averse in their investment policy, since any loss could be interpreted as a failure to follow the ‘standard investment criteria’, and hence potentially make the trustees personally liable. It also requires them generally to take advice on investment decisions, thereby imposing an additional layer of costs above their own fees.

The net effect of these regulations has been to turn pension schemes into virtual banks, in which those paying into them can be confident that their money is safe, but at the expense of very low returns. Worse still, the annual management charges by the scheme trustees vary from 1.5% to 5%[15] of the value of the fund, with further charges for advice being deducted from the value of the assets purchased by the fund.

1.3. The Paradox of Passivity

Conventional saving involves acquiring what economists call ‘financial assets’, by which they mean indirect claims on the real assets owned by others. These include cash, bank and building society accounts, shares and bonds of various kinds, investments in life assurance funds and unit trusts, and, of course, private pension rights. A small number of investment professionals can take an active involvement in the buying and selling of financial assets, and thereby potentially gain large fortunes.

[15] Fool.co.uk (www.fool.co.uk, accessed on 20 August 2007).

However, for the bulk of ordinary savers their involvement is necessarily passive; and as a result their returns are usually very modest.

This passivity has three related aspects. The first is lack of knowledge. The markets in financial assets are complex, and thus hard to understand, and, while information may flow quite freely between professionals, it is largely inaccessible to outsiders. Therefore, any ordinary individual wishing to acquire financial assets must necessarily rely on the judgment of professionals, through putting their money into some kind of managed fund. But this comes at a price, which is deducted from the returns; indeed the management charges for pension schemes are typical for all kinds of funds.

The second aspect of passivity is lack of access. In the modern economy the highest returns are to be found in relatively new and small companies[16]. Many of these are private, with venture capitalists of one kind or another providing some or all of the equity. Others are listed on specialist stock markets, such as AIM in the UK; and the high levels of risk, combined with the costs of gaining reliable information, make them suitable only for wealthier investors. The consequence is that ordinary investors are effectively excluded from the most lucrative investments, and are confined to those offering lower returns.

The third aspect is lack of capital. In recent years private equity and hedge funds have illustrated the fortunes that can be made by using loan capital to purchase equity, exploiting the difference between interest charges and equity returns. The private equity and hedge fund managers are able to convince banks and other financial intermediaries that they possess sufficient knowledge and access to be able to invest shrewdly, and sufficient funds to spread their risk. Thus, ordinary savers have no means of putting their money into such a fund, for the 'financial promotion restriction' contained in section 21 of the Financial Services and Markets Act 2000, and the restrictions on 'collective investment schemes' in sections 235 onwards, which effectively prevent private equity and hedge funds recruiting ordinary savers. And, of course, an ordinary saver would have great difficulty persuading a bank to make a personal loan to finance direct equity investment.

---

[16] Dimson, E, Nagel, S & Quigley, G, *Capturing the value premium in the UK 1955-2001* (Institute of Finance and Accounting Working Paper, London Business School, 2002).

So freelance saving offers no escape from the regulatory paradox of pensions schemes. On the contrary, it is trapped in a paradox of its own: while ordinary savers have the greatest and most urgent need for high returns, they are excluded from them.

1.4. The Paradox of Thrift

At the individual level it is undoubtedly the case that increased saving leads to increased wealth, and thus to more dividends, interest or rent in the future. So those who are thrifty, setting aside a substantial portion of their monthly salary, will tend to enjoy greater comfort in old age than those who are profligate, setting aside little or nothing.

However, there is a long-held doubt about whether this also applies when large numbers of people increase their savings. As long ago as 1705 the satirist Bernard Mandeville showed how a thrifty population defeats its own intentions. In his *Fable of the Bees*[17] he imagined a virtuous society of devout Christians, all of whom worked hard and lived frugally; but their frugality meant that none of them wanted to buy much of what the others were producing, so their hard work was in vain. In 1936 John Maynard Keynes, in his *General Theory of Employment, Interest and Money*[18], applied Mandeville's fable to modern industrial society, and wrote a detailed analysis as to why he was correct.

At the heart of both Mandeville's satire and Keynes's analysis is the possibility of saving without also investing, where people can set money aside, without using that money to buy capital goods, such as tools, machines, factories and stock. In a primitive economy this is impossible, because money does not exist. However, with the invention of money, in the form a precious metals and bank notes, and also the creation of other kinds of financial assets, saving is possible. Its result is to reduce

[17] Mandeville, Bernard, *Fable of the Bees; or Private Vices and Public Benefits* (London, 1705).
[18] Keynes, John Maynard, *The General Theory of Employment, Interest and Money* (London, Macmillan, 1936).

'aggregate demand' in the economy, and hence reduce the economic well-being of society as a whole.

Keynes explained this process in terms of two linked concepts, the 'multiplier' and the 'accelerator'. When people save more and spend less there will be a multiple reduction in national income, as those receiving less money for their goods spend less money themselves. This process will be accelerated as firms decide to scale back their investment plans, reducing their capacity in response to lower demand.

Thus, if Mrs Thatcher and her successors persuaded people to increase their personal savings for retirement, it could prove self-defeating, plunging the economy into a recession that thwarted people's ability to save. Indeed, Keynes feared that modern economies would have a tendency towards recession caused by people saving for the future. In fact, since Mrs Thatcher's time household savings in Britain have fallen from their historic norm of around 10% of post-tax income to 4% in 2006[19].

1.5. The Paradox of Yields

In the earlier 18th Century, when Mandeville was writing, most people would have saved by hoarding money. However, by the time Keynes was writing, the monetary system had created financial assets that offered some kind of yield. The most common were what he called 'bonds', which he defined as any kind of transferable financial asset offering a fixed annual income, such as government stock and company debentures. There were also public company shares, offering either a fixed dividend or a variable dividend based on profits. Keynes assumed that savers would generally prefer bonds and shares, only shifting into money if they believed that the price of bonds and shares was about to fall.

[19] Office of National Statistics website (www.statistics.gov.uk, accessed on 20 August 2007).

This simple analysis of the structures of saving led Keynes to suggest a second paradox that further frustrates the savers' intentions. As people save more and hence buy more bonds and shares, so the price of bonds and shares will tend to rise. Yet the income derived from bonds will stay the same; so the yields from bonds will fall exactly in proportion to the rise in price. Also the increased demand for shares will not of directly cause dividends to rise, but will increase the price of the share, therefore share yields will also fall. This phenomenon will to some extent be offset by economic growth, which may mean more companies issue more bonds and pay higher dividends. However, there is no reason why such growth will be sufficient to offset falling yields. And, besides, the paradox of thrift will tend to choke economic growth.

One of the assumption that Keynes made was that UK savers would generally purchase UK financial assets. Clearly, if they were equally willing to acquire foreign financial assets, then the paradox of falling yields would not apply, except in the event of the savings rate in countries across the world increasing simultaneously. Despite the globalization of the goods market, the market for household savings retains a strong domestic bias, with UK residents continue to prefer UK financial assets. A brief survey of such publications as *Investors Chronicle* and *Money Week* illustrate how strongly the major UK investment vehicles, such as unit trusts and OEICs, are biased towards UK-quoted companies. Of course, many UK-quoted companies hold significant overseas assets, as do UK banks and other financial intermediaries. Nonetheless there is little doubt that UK households, while they have no qualms about buying electrical goods assembled in remote Chinese factories and garments sewn in Bangladeshi backyards, still like to feel that their lifetime savings are held, or at least controlled, in their own country.

The reason for this bias arises from the same factors that cause the paradox of passivity, except that these factors are even stronger. To the ordinary UK saver overseas financial markets are even more opaque and less accessible than British markets; and the management charges on funds specializing in overseas investments tend to be even higher.

Part 2: Resolution

2.1. The Peculiarity of Property

The philosopher John Locke in 1690[20] argued that land has no value is itself, but only acquires its value by being mixed with labour. So just as a person's labour belongs to that person, so the land acquiring value by that labour also belongs to that person From this simple insight he drew two striking conclusions. First, the state has no right to appropriate or control land, but instead should confine its role to protecting the rights of individuals to cultivate it and live on it. For Locke private land rights form the foundation for a free and civilized society. Second, the ownership of land, or at least the benefits deriving from it, should be widely dispersed, since the skills to cultivate land and build homes are also widely dispersed. Locke had no objection to rich people acquiring large estates and constructing grand houses for themselves, so long as ordinary families had enough land to satisfy their basic needs.

Ricardo accepted virtually without question Locke's theory of property. Indeed, Locke's views, particularly on private ownership, had by Ricardo's time become firmly rooted in English social attitudes, and arguably remain so. Ricardo then added his own simple insight: that the total quantity of land is fixed. And he linked this obvious fact with another idea that seemed equally obvious to himself and his contemporaries, that the human population has a natural tendency to increase. This led him to conclude that the demand for land would continually increase, and so both its price and the rent payable year by year would steadily rise. By contrast the price of other types of capital goods, such as machines and tools, would always be based on their cost of production, and so either remain steady or fall.

He thus came to regard investment in land as the best means of accumulating wealth. In his view only idiots try to become wealthy by hoarding money, or even by acquiring financial assets in the form of lending money at interest. Instead, wise individuals desiring to be comfortable in their old age should acquire God's own asset, with the security in that they had time on their side.

[20] Locke, John, *Second Treatise on Government* (London, 1690).

So to what extent, and in what ways, do the insights of Locke and Ricardo apply today? Is land still free from the tight grasp of the state, and do people have the skills needed to buy and use land profitably within a modern economic context? Does land remain a secure long-term investment with a rising return, and is it superior to financial assets? If the answers are positive (or can be made positive) then the paradoxes besetting modern pensions can be resolved.

2.2. Beyond the State

The Financial Services and Markets Act (FSMA) 2000, and the large number of Statutory Instruments that have derived from it, place very tight controls on a wide range of investment activities; and the Financial Services Authority (FSA) enforces the Act. In terms of the investments available to ordinary people, the most important part of the legislation is Section 21 of FSMA 2000, and the Statutory Instrument FSMA 2000 (Financial Promotion) Order 2005 (SI 2005/1529). These embrace the promotion of every kind of financial asset, and restricts such promotion to 'approved persons', which in effect means such people as qualified independent financial advisors (IFAs), stockbrokers and banks. The only types of financial asset that can be promoted directly to the general public are bank deposits and what the Act refers to (Section 235*ff*) as 'regulated collective investments schemes', which means such vehicles as unit trusts and open-ended investment companies; but the process of becoming regulated is itself very onerous and costly.

The effect of these controls is to make the paradox of passivity statutory, making it a legal requirement that financial assets can only be offered to ordinary people through a thick layer of investment advisors and managers, with all their associated hefty fees. Moreover, the regulation of collective investment schemes and their constant monitoring by the FSA mean that the managers tend to be cautious, only buying financial assets that appear to have low risk of loss – and hence low returns. Thus the performance of these kinds of investments tends to be as poor as most pension schemes, for the exact same reasons. Strikingly FSMA 2000 allows direct promotion of financial assets, without any kind of approval and regulation, to 'high net worth individuals', which currently means having over £250,000 of wealth over and above a primary residence and pension assets. Thus it is only those already rich that have access to the most lucrative investments.

However, property – land and buildings – lies entirely outside the scope of FSMA 2000 and the FSA. Instead, the buying and selling of property is governed by a single, relatively simple statute, the Estate Agents Act (EAA) 1979, and a single, short Statutory Instrument EAA 1979 (Commencement No.1) Order 1981 (SI 1981/1520). Section 1(1) defines 'estate agency work' as comprising *'things done by [a] person in the course of a business … pursuant to instructions received by another person … who wishes to dispose of or acquire an interest in land.'* Thus, an estate agent is the agent of either a buyer or a seller, acting as the buyer or seller instructs. The main implication of this definition is to indicate that estate agents are subject to the common law of *agency*, which means that they must abide by the contract they have made with their principals. Also, the Act and its Statutory Instrument prescribe good business practice, of which the most important aspects concern the handling of client money: if the estate agent is a conduit through which money passes from buyer to seller, the money must be kept in a 'Client Account', so that the estate agent is clearly holding it on trust, and proper accounts must be kept.

There is some doubt as to whether EAA 1979 applies to agents dealing in overseas property. The Act is not clear, and the matter has not been tested in the courts. But John Murdoch[21] takes the view that it does not, and is restricted to UK property; and the Office of Fair Trading (OFT) website takes the same view. However, any estate agent dealing in overseas property and wishing to establish a good reputation would wish to comply with it, since it prescribes no more than good business practice.

So Locke's desire for property to lie outside the control of the state remains largely true: people can buy and sell property without any state agency monitoring the transaction, except to record it in the Land Registry; and anyone can promote the buying and selling of property, without any state agency regulating or approving that promotion. And in a time when state regulation is so ubiquitous, it seems remarkable

[21] Murdoch, J, *The Law of Estate Agency and Auctions* (London, The Estate Agents Gazette, 1994).

that a matter as important to people as the sale of property remains free. Indeed, when estate agents regularly come near the bottom of any survey of public trust, it is even more incredible that there have not been stronger calls to bring them under the control of some statutory body. Thus, it seems that the English collective consciousness remains determined to keep property and its dealing wholly private, and thus free from the paradox of regulation.

2.3. The Amateur Professional

Oddly enough, the skills involved in cultivation and building remain widespread, although adapted for modern life, with gardening and home improvement are English obsessions. So much so that garden centres and DIY stores comprise major industries. But there is another skill related to the ownership of property that is even more common, which is the knowledge and understanding of the property market. Such is the fascination the property market exerts that newspapers give prominence to every change in price trends. And, there are several magazines, with relatively high circulations, solely devoted to both the home and overseas markets, each of which contains long and detailed articles, and, often there are associated television programmes that add glamour. It is had to think of any other area of economic activity in which ordinary people have even a fraction of the interest that they have in built environment.

It seems highly likely that this widespread understanding of the property market is a major reason why property dealing remains unregulated, and that there is little call from members of the public for regulatory protection, and equally little justification for providing it. In fact, the property market has even less legislation shielding the buyer from sharp practice than does the market for consumer goods, so it remains one of the few areas of economic activity where the old principle of *caveat emptor* still genuinely applies.

The property market is also highly accessible. Every town in Britain, and every district in every city, has a street or area where the estate agents concentrate, so anyone can walk up and down to see what properties are currently for sale, and at what price.

And the competition between estate agents keeps their fees low – to 2-3%[22] – by comparison with the fees charged by those in financial services. Estate agents have also been quick to take advantage of the new media, especially the internet, so people can instantly discover the property available in any part of the country they choose.

The internet now provides the same accessibility to the overseas property markets. Prior to the widespread introduction of the internet, there were estate agents in the UK specializing in selling property in the most popular holiday destinations, such as Spain, France, Italy and Cyprus. However, beyond such places people had to visit any country where they might be interested in buying property and walk round the local agents. Now they need only type into a search engine a phrase such as 'property in Latvia', and even 'property in Ulan Bator', and they will find agents able to tell them what is available and to provide guidance on the process of purchase.

Most remarkably of all, ordinary people have virtually the same access to loan capital for property acquisition as do professional investors. Since lending institutions regard most property as good collateral, they are not only willing to offer loans to ordinary people, but will generally charge similar rates of interest to those levied on commercial loans. In recent years, such has been the competition between lenders that interest rates charged to ordinary people may often be lower than that justified by the risks attaching to the loan. This can most starkly be seen the crisis in the US 'sub-prime' mortgage market in summer 2007.

Thus uniquely investment in property is free from the paradox of passivity. Ordinary people have the knowledge, the access and the capital to be able to make direct and highly geared investments, without the need for professional guidance and management – and hence without the requirement to pay a substantial part of their returns in fees.

2.4. Saving Through Property

[22] Rightmove.co.uk (www.rightmove.co.uk, accessed on 21 August 2007).

In the light of the importance placed on property by Ricardo, it is strange that Keynes, who was well-versed in the history of his subject, did not consider property, alongside bonds, as a form of saving. Perhaps the depressed state of the property market in interwar years, plus the relatively low level of owner occupation at that time, caused him to dismiss it.

Saving through property, however, is likely to have very different economic effects from saving through financial assets such as bonds. Firstly, saving through property acquisition may stimulate the construction industry. Insofar as people are buying second properties, this may take the form of new buildings that may not otherwise have existed; and insofar as they save by buying a larger house than they need, it will take the form of building bigger houses. So in this respect saving through property has the same economic effects as consumption, causing no negative multiplier.

Secondly, even if planning constraints and other factors suppress construction, saving through property will still tend to have a neutral or even positive effect on aggregate demand. If the amount of money being saved through property equals the amount of money being withdrawn, then there will be no overall effect. This will occur if the purchase of additional property by people of working age is the same as that sold by retirees scaling down and by estates of the recently deceased. Of course, many other factors cause the purchase and sale of property; but as far as the 'life-cycle' factors are concerned, they will tend to cancel each other out.

If, on the other hand, the amount saved through property exceeds the amount being withdrawn, then it is likely that this actually increases aggregate demand – precisely the opposite of what occurs when saving through financial assets is excessive. This is because property owners tend to regard the resulting increase in property prices as a kind of windfall; and through increasing the amount borrowed against their property, some will raise their level of consumption[23]. In effect, people may regard any increase in wealth over and above that achieved through their own direct effects as 'free', and hence should be liquidated and spent. This process, known as the 'wealth effect',

[23] Davey, Melissa, *Mortgage Equity Withdrawal and Consumption* (Bank of England Quarterly Bulletin, Spring 2001).

appears to have been especially important in Britain at the start of the twenty-first century, and is widely believed to have helped sustain a prolonged consumer boom.

Saving through overseas property has similar overall effects on aggregate demand, though in some respects the processes are different. It seems likely that higher purchases of overseas property are more likely to boost the construction industry than purchase of property at home, since some purchasers will choose emerging economies with looser planning controls. But the beneficial effects, of course, will be to the local economy; and at the same time demand will have 'leaked' out of the home economy.

However, there are two ways in which the effects on aggregate demand will be positive. Firstly, purchases of overseas property will tend to put downward pressure on the exchange rate, which may boost export demand. Second, the wealth effect applies equally to overseas as to domestic property, with people regarding increases in the value of overseas property as windfalls that can be spent. Indeed, the wealth effect will tend to be stronger because people can – and do – choose to invest in property markets where the prospects of capital gains tend to be brighter, and not purchase properties in markets where prices are stagnating.

2.5. Raising the Yield

To some degree the UK property market, during the long boom that began in the mid 1990s, suffered the paradox of falling yields: although rents rose, they did not rise in proportion to prices, so that rents as a percentage of prices fell[24]. As a result, UK property has become a comparatively poor form of saving. This suggests that, although ordinary people in the UK are remarkably well-informed about overseas property markets, they still have a marked bias towards the UK market. If there were not such a bias, then yields on UK property would never fall significantly below the best that could be obtained elsewhere – and manifestly this is not the case.

[24] Rhodes, David, *The University of York Rent Index* (Centre for Housing Policy, York University, online www.york.ac.uk/inst/chp - accessed on 20 August 2007).

It could be argued that the low yields on UK property low risk, so that, adjusted for risk, UK yields remain competitive. Lying behind such an argument is the notion that property markets in mature economies, such as that of the UK, are less risky than properties in less mature, emerging economies. Certainly political instability, where property rights are uncertain or where the framework for economic development is not yet firmly established, creates additional risk. But in relatively immature economy with strong and economically liberal political institutions, it could be argued that risks are actually lower, because it is likely to 'catch up' with more mature economies. For example, the downturn in the US property market from 2006 hardly makes investment there seem safe; whereas property markets in eastern European countries, whose institutions were deemed sufficiently robust to merit EU entry, seem to have more secure prospects. So falling yields on UK property undoubtedly reflect excessive investment.

The question, then, is whether ordinary people saving through property could escape the paradox of falling yields by buying overseas property. If it were the case, then saving through overseas property could offer the optimal means of providing for retirement. There are two main reasons for thinking that it is.

First, it seems highly unlikely that the pensions crisis currently besetting Britain will become commonplace across the world, and that people in every country will seek to resolve it through foreign property. Certainly there are a number of countries, such as Germany and Japan, that face similar, or even more acute demographic problems to those of Britain, with a sharply rising proportion of the population reaching retirement[25]. But in the context of the global economy any extra saving undertaken by people of working age in those countries, as well as in Britain, is unlikely to a significant effect on the total volume of savings. And there are very few other countries where the ordinary people have such a tradition of saving through property. In Japan and Germany, for example, the rate of owner occupation is far lower than in Britain[26], suggesting the people are less willing to hold property as an asset.

[25] Dolan, RE & Worden RL, *Japan: a Country Study* (Washington, Library of Congress, 1994); Solsten, E, *Germany: a Country Study* (Washington, Library of Congress, 1994).
[26] Ibid.

So, if the British people were to increase significantly their saving through overseas property, this would not lead to falling yields on those properties.

Second, and more importantly, Ricardo's argument for property as an investment applies to the global market with even greater force than he could possibly have imagined. Ricardo believed, along with almost all his contemporaries, that rising population would, by increasing the supply of labour, always tend to force wages down to subsistence level. History has proven him decisively wrong, for since his time the global population has multiplied several times over, while in country after country wages have risen far above subsistence. Yet this has made his central thesis, that demand for land would constantly to rise, has proved decisively right. Not only are there ever more people wanting land, but they each require more land, and land is a good with a high 'income elasticity of demand'. Also, land is needed for building as people want larger homes, along with more land is wanted for forestry to provide wood for constructing these homes. More land is needed for rearing meat, as people diet becomes richer; and more land is needed for arable crops to convert into meat – and now also for bio-fuels.

It is possible that at some point in the future Ricardo's thesis will cease to be true, and even go into reverse. An example of this is that it seems to be an almost universal phenomenon that rising living standards are accompanied by lower birth rates; so eventually the global population is likely to stabilize and even fall[27]. Also people may reach a point where they no longer want more meat or larger homes, at which point the income elasticity of demand would be zero. At that point global land prices will stabilize and even fall. However, globally this seems more of a theoretical possibility than a real one.

Of course, the underlying upward trend in global land prices and yields does not eliminate short-run volatility. For example, land prices in parts of Japan by the 1980s had ballooned way above their trend, fuelled by speculation, and subsequently

[27] United Nations, Department of Economic and Social Affairs, Population Division (2007). World Population Prospects: The 2006 Revision, Highlights, Working Paper No. ESA/P/WP.202.

slumped[28]. Many commentators, such as Roger Bootle[29], have argued that the boom starting in the mid 1990s took property prices in UK above their trend, perhaps by as much as 30%, and that the fall in rental yields was a symptom of this. Since property ownership in UK and elsewhere is highly geared, with mortgages very large in relation to value, property prices are especially sensitive to interest rates; thus both changes in interest rates, and changes in expectations of future rates, are likely to have a marked effect.

A further factor than can cause deviations from the trend is planning policy. While the total supply of land is fixed, the allocation of land for particular purposes is in most countries subject to a degree of state control. The strictest controls generally apply to land for building, where the state authorities often prescribe both the areas on which building construction can occur and the density of that construction. So if planning controls for building tighten or loosen, then building land prices will rise or fall. In effect planning controls create a series of lower level Ricardian markets, in which the supply of land for each purpose, as well as the overall supply of land, is fixed – or at least constrained.

Notwithstanding these sources of deviation, it remains the case that in general saving through overseas property is likely to represent an excellent means for UK residents to provide for their later years. On the one hand, property in general, for reasons Ricardo analyzed two centuries ago, remains the best means for ordinary people to accumulate wealth. On the other hand, the upward shift required in UK savings, if directed solely to the UK property market, would be so great as to cause steeply declining yields. Hence a large part of this increase in savings must be directed to other parts of the world.

---

[28] Whitten, D, *Japanese Property Prices: The End of Deflation is Near* (online at www.ecademy.com/node.php?id=29896, 31 August 2004).
[29] Bootle, Roger, *Money for Nothing* (London, Nicholas Brealey Publishing, 2003).

Part 3: Pensions

3.1. The SIPP

In the late 1980s the British government quietly introduced the Self Invested Personal Pension – the SIPP – in the Income and Corporation Taxes Act 1988. Until that time the only means of gaining the tax advantages associated with pension saving was through a pension scheme licensed by the financial regulator – which was the Bank of England. These schemes were, and still are, organized as trusts, in which the pension scheme trustees hold the assets on behalf of the members, and they appoint professional investment managers to look after them. And, on the most part, individuals were passive in the pension management, and, for the majority, it seemed to work. But a small number of people, mainly with specialist knowledge of investment, objected that they were as least as well-qualified as the pension scheme managers to decide how their pension contributions should be allocated. Thus, the SIPP came into being to satisfy this demand.

In legal terms the SIPP, like the conventional pension scheme, is a trust. The trustees are an entity generally known as a 'SIPP Provider'. The member contributes money to the SIPP Provider, which then invests it on the member's behalf. The difference is that the SIPP Provider makes each particular investment on the member's instructions. So the SIPP Provider's role is mainly confined to administering the trust, and to ensuring that the rules on permissible investments are kept.

Contributions to a SIPP can come from two sources. The first is direct contributions from the member, either in the form of monthly contributions, or, more commonly, in lump sums to finance particular investments. The second is transfers from managed pensions. Every pension scheme attributes a transfer value to each member's accumulated contributions[30], which is the amount of money that would, on the member's instruction, be transferred to another scheme. As the performance of conventional pension schemes has worsened, so a major attraction of SIPPs has been their capacity for bringing existing pension money under personal control. SIPP

[30] Sharingpensions.co.uk (www.sharingpensions.co.uk, accessed on 24 August 2007) The ability to transfer pensions was introduced in 1994, and the methods of valuation are approved by the FSA.

Providers report informally that over half the money they receive is through transfers, although some say that the ratio is gradually shifting towards direct contributions.

SIPP Providers operate in competition with each other on both price and service. Prices are generally fixed in relation to the amount in a SIPP: there are flat fees for opening a SIPP and administering it; and also flat fees for organizing transfers from other pensions and for placing additional assets within the SIPP[31]. The amounts and the structure of the fees vary to a limited extent. The bigger variations between SIPP Providers are on the quality of their administration and, more importantly, on the range of assets they are prepared to handle. Some SIPP Providers only handle very simple assets such as quoted shares, and shares in managed funds of various kinds[32]; and they tend to charge lower fees, since the administration is much simpler. Other SIPP Providers handle more complex assets, including unquoted shares and property.

SIPPs had little impact on the pensions industry in the first decade of their existence, remaining confined – as was first envisaged – to a small number of investment specialists. But in the early years of the twenty-first century interest began to widen; and three factors seem to have been especially important[33]. The first was the stock market slump following the 'dotcom' boom, when there were well-publicized fears of pension funds becoming insolvent. The second were the various scandals that hit the pensions industry, where large numbers of people, who had assumed their money was safe, found themselves facing an impoverished old age, and where many highly respectable pension funds were found guilty of mis-selling pensions. The Maxwell debacle and the Equitable Life fiasco epitomized these problems, and found a horrifying echo in the Enron and WorldCom scandals in America.

The third, and in the long-run the most significant, is the shift in many company pension schemes from 'final salary' to 'defined benefit' arrangements. Under final salary arrangements the company guaranteed a certain pension, regardless of what happened to the assets in the pension fund. Under defined benefit arrangements the

[31] Fairinvestment.co.uk (www.fairinvestment.co.uk, accessed on 24 August 2007).
[32] SIPPs Guide (www.sippsguide.com, accessed on 24 August 2007).
[33] Dunn, S, There's no stopping the growth of SIPPs. 2006 (*The Independent*, 13 August 2006).

assets ultimately determine the pension. People are drawing the obvious conclusion that they might be better looking after their own money.

3.2. SIPP Rules

The attraction of saving through a SIPP, as with any pension scheme, is the tax advantages. There is a full Income Tax rebate on contributions to the SIPP: the SIPP itself collects the standard rate element; and if the member is a higher rate payer, then he or she collects the higher rate element through the tax return. Thus, at a standard rate of 20% (as from April 2008), the member pays only £8,000 into the SIPP in order to achieve £10,000; and may collect a further £2,000 directly as either a deduction in their tax bill or as a tax rebate. Subsequently there is full tax exemption: the SIPP pays no Income Tax and Capital Gains Tax on the income and sale of assets within it.

To achieve these privileges, however, the SIPP must conform to a large number of rules. In the first place assets within a SIPP cannot be taken out except as part of the member's pension; and as from 2010 this can only begin from the age of 55 – although it can begin later if the member chooses. There are three mechanism of 'drawdown' from a SIPP: a tax-free lump sum payment of 25% of the value of the SIPP, which can be drawn only once; a gradual withdraw as the member desires; or being used to buy an annuity. The latter two of which attracting Income Tax in the process. Thus to some extent the tax exemption on assets within a SIPP is in reality a deferral of tax, although people in retirement are often paying a lower rate of Income Tax than during their working years.

This tax regime for SIPPs is in fact the same for all approved pension schemes. However, in one respect the regime is distinct. With conventional pension schemes, a member's pension is worthless at the death of the member and, in many cases, the member's spouse. With a SIPP any remaining assets can be bequeathed, subject to normal Inheritance Tax.

The tax regime for pensions, including SIPPs, was reformed and simplified by the Finance Act 2004, with the reforms being enacted in April 2006. The rules on the assets held within a SIPP were also reformed.

The main asset rules relate to the classes of assets. Until April 2006 there was a list of permissible assets, whereas from April 2006 all assets can be placed in a SIPP – but some may count as 'taxable property', and hence may attract a tax charge[34]. Virtually all conventional financial assets, such as unit trusts and shares, are not taxable property; and the same now applies to unquoted shares and to more exotic financial assets such a derivatives. When it comes to property, in the sense of land and buildings, the old rule and the new both in effect only allow commercial property, as defined in English law, to be directly held within a SIPP. This includes offices, warehouses, along with hotel rooms and suites. It also includes land being used for productive purposes, such as agriculture and forestry, land being banked in the hope of a development gain, and land actually being developed. The Chancellor had at one point indicated that he would allow residential property to be held within a SIPP, provoking great interest amongst estate agents and SIPP Providers alike; but in December 2005 he announced a change of mind, seemingly from fear that the UK property boom would be further fuelled by people buying second homes to place in SIPPs.

There are also rules concerning the amount that can be borrowed within a SIPP, which were tightened in April 2006. The maximum amount is 50% of the total value of the SIPP; this also applies to 'through borrowing', in which the SIPP borrows indirectly through a private company or trust. The purpose is presumably to limit the risks associated with high 'gearing', and hence make the value of the SIPP more secure. Its main effect is to constrain the amount of property held in a SIPP, since property purchases, in the commercial as well as the residential sectors, are typically financed by far higher levels of borrowing.

Finally there are rules concerning the use of a property. If a property is held within a SIPP, the SIPP, unlike a normal private trust, cannot allow the member any benefits

[34] HM Revenue and Customs website (www.hmrc.gov.uk, accessed on 21 August 2007).

from usage of the property. Instead, all the benefits must accrue within the SIPP, to provide for the member's old age; so if the member usages the property, he or she must pay the normal commercial charge. The purpose is clearly to prevent SIPPs being used as a tax avoidance ploy, in which, for example, a shop-owner might place his shop in a SIPP, gaining a large immediate tax rebate on its value and subsequent exemption from tax on disposal, and yet continue to use the shop at zero rent.

3.3. Overseas Property SIPP

SIPP Providers willing to hold property directly are in practice confined to UK property. This is not the result of any SIPP rules, but arises from the legal structure of a SIPP as a trust. The law of trusts originates in medieval England, and is widely regarded as a major achievement of English jurisprudence. Its key is the distinction it makes between the legal owners of an asset, known as the trustees, and the beneficial owners who derive the benefits from it. And under trust law the trustees carry no personal liability for any losses, unless caused by a breach of trust, such as negligence, on their part. In the colonial period Britain introduced trust law to the countries that it governed, and most of those countries retained it at independence.

However, outside the former British Empire trusts are not recognized as legal entities. This means that the legal owners – the trustees – carry full liability for losses in connexion with an asset owned by them. When applied to SIPPs, this implies that the SIPP Provider, as trustee, would be liable for losses arising from any one overseas property. Moreover, if the SIPP Provider held a number of properties in a particular country, a claimant could enforce its claim relating to one property against all the others.

For example, a SIPP Provider may be legal owner of several properties in, say, Bulgaria, each on behalf of a different member. One property may be inadequately insured for public liability, and an event occurs, such as a serious injury, for which the owner of the property may be liable; and the claim might be far above the value of the property. Within a jurisdiction recognizing trust law the worst outcome for the SIPP Provider would be for the property to be sold, and the proceeds used to meet part of the claim, with the rest of the claim remaining unmet. Thus, the member would have lost the asset, but no other members would be affected. Within Bulgaria, and within every other European jurisdiction, the claimant could enforce the claim against the other properties held by that SIPP Provider, so other members would also lose.

Clearly this is unacceptable and any SIPP Provider even allowing such a risk would arguably be in breach of trust. The answer is to insert between the SIPP and the property an entity enjoying limited liability, with the SIPP owning the entity and the entity owning the property. This cannot, however, be a normal company, as it would attract corporation tax, negating most of the tax advantages of the SIPP. Nor can it be a UK Limited Liability Partnership, formed under the Limited Liability Partnership 2000, as this can only be used for trading purposes, not merely for the holding of property[35].

In fact, the only suitable entity is the Limited Liability Company (LLC) pioneered in Wyoming, USA in 1977[36], and subsequently adopted by many US states as well as various jurisdictions elsewhere in the world. The LLC is 'fiscally transparent' in that it pays no tax itself. Within the USA it is taxed as a partnership, whereas within UK HMRC has indicated that tax will be levied only on distributions[37]; but provided the tax is levied on the owners, and not on the LLC itself, then with the context of a SIPP there will be no taxes at all. Thus the LLC appears to offer a unique means of holding overseas property within a SIPP.

3.4. In Or Out

Since overseas property appears to be an optimal means for ordinary people saving for retirement, it is tempting to conclude that every sensible person of working age should be rushing to open an overseas property SIPP. But the rules surrounding SIPPs create considerable difficulties and disincentives – of which two stand out.

35 Blackett-Ord, M, *Partnership* (London, Butterworths, 2002), Section 2.39.
36 The Wyoming Limited Liability Act 1977.
37 HM Revenue and Customs website (www.hmrc.gov.uk, accessed on 1 September 2007).

The first is the limit on borrowing. One of the central attractions of saving through property is that ordinary people can borrow a large amount of the capital required on terms similar to those offered to investment institutions. Moreover, if an individual is to acquire a whole property, he or she is unlikely to have sufficient personal funds to pay for it, so a mortgage is essential. But the 50% limit on borrowing precludes this. This means that most ordinary people can only hold property in a SIPP be means of some kind of syndicate or fractional arrangement; and in relation to overseas property, this implies the SIPP holding a portion of the shares in an LLC. Unfortunately this inevitably creates an additional layer of management costs, and is likely to impose restrictions concerning the timing of the property's sale.

The second is the prohibition on residential property. Although similar Ricardian forces apply to both, the markets for residential property and various kinds of commercial properties are quite distinct. For example, two major determinants of residential property prices in a particular location are likely changes in local population density and in the average income of that population, while agricultural property prices in any location are determined to a great degree by changes in the global demand and supply of agricultural commodities. Ordinary people obviously have a far greater understanding of residential property markets, since they have direct experience of that market in the place where they live, and magazines and television programmes concentrate on residential property. Yet the SIPP rules restrict them to commercial property, of which they are likely to have only very limited understanding.

It could be strongly argued that, when applied to property, the borrowing rule should be relaxed. The case for the prohibition on residential property is quite compelling within the UK context, but is far weaker when applied to overseas property, since UK households saving through property scattered across the world would have only a negligible impact on global prices – and, besides, that is not the UK government's concern. So there seems good reason for the UK government to allow SIPPs to hold overseas residential property.

But in the absence of such changes, these rules undoubtedly serious inhibit the use of SIPPs as a vehicle for pension saving. The financial advantages of high gearing, where the owner benefits from the difference between interest rates and the combined yield from rents and capital growth, may outweigh – or be expected to outweigh – the value of tax rebates and exemptions of a SIPP. Moreover, such gearing is for most ordinary people the only way they can afford a whole property. And many ordinary people would rightly add a large risk premium to buying property in markets of which they have little or no understanding.

Anecdotal evidence suggests that many of the hundreds of thousands of UK residents already owning an overseas property regard it to a greater or lesser extent as a form of pension; and, assuming they have purchased their property wisely, they are acting shrewdly. It seems a shame that this kind of pension saving does not enjoy official encouragement.

3.5. Ricardo Revisited

When people save through buying property, they generally regard the annual rent as a means of servicing the mortgage; and they see the prospective capital appreciation as the main means of accumulating wealth for old age. It is in this calculation that they demonstrate their unconscious allegiance to Ricardian economics.

While the SIPP rules restrict gearing, the UK tax rules actually encourage it, since the owner of a second property can set the costs of servicing the mortgage against the annual rent, thereby reducing or eliminating Income Tax[38]. This leads to the intriguing conclusion that, if it were possible to place the prospective capital gains in a SIPP, as distinct from the property itself, then the owner would in effect enjoy the same tax advantages of a SIPP, without being subject to its rules.

The legal challenges of creating a capital gain SIPP for property are considerable. In the first place the prospective capital gains would need to be turned into some of kind of derivative that would not be regarded by the UK tax authorities as an indirect

[38] HM Revenue and Customs website (www.hmrc.gov.uk, accessed on 1 September 2007).

interest in the property. Second, the entire capital gains tax liability would need to accrue to the derivative and not to the property. But if these challenges can be met, then Ricardian saving through overseas property might become a major means of overcoming the UK pensions crisis.

Bibliography

Blackett-Ord, M, *Partnership* (London, Butterworths, 2002), Section 2.39.

Bootle, Roger, *Money for Nothing* (London, Nicholas Brealey Publishing, 2003).

Crawford, Ian and Smith, Zoe *Distributional Aspects of Inflation* (Institute of Fiscal Studies, London 2002).

Davey, Melissa, *Mortgage Equity Withdrawal and Consumption* (Bank of England Quarterly Bulletin, Spring 2001).

Dimson, E, Nagel, S & Quigley, G, *Capturing the value premium in the UK 1955-2001* (Institute of Finance and Accounting Working Paper, London Business School, 2002).

Dolan, RE & Worden RL, *Japan: a Country Study* (Washington, Library of Congress, 1994); Solsten, E, *Germany: a Country Study* (Washington, Library of Congress, 1994).

Dunn, S, There's no stopping the growth of SIPPs. 2006 (*The Independent*, 13 August 2006).

Fama, Eugene, *Efficient Capital Markets: a Review of Theory and Empirical Work* (Philadelphia, Journal of Finance, May 1970).

HM Treasury, *Long-term Public Finance Report: An Analysis of Fiscal Sustainability* (London, December 2005).

Kaletsky, A. If Brown wants the city to love him, here's a list of sweeties to hand out. 2006. *The Times* (19 October 2006).

Keynes, John Maynard, *The General Theory of Employment, Interest and Money* (London, Macmillan, 1936).

Laffer, Arthur, *Supply Side Economics: Financial Decision-making for the 1980s* (Glenview Illinois, Scott Foresman, 1983).

Locke, John, *Second Treatise on Government* (London, 1690).

Mandeville, Bernard, *Fable of the Bees; or Private Vices and Publick Benefits* (London, 1705).

Myles, GD, *Taxation, Economic Growth and the Double Dividend: Report to the Standing Advisory Committee on Trunk Road Assessment* (London, Department for Environment, Transport and the Regions, 27 August 2004).

Murdoch, J, *The Law of Estate Agency and Auctions* (London, The Estate Agents Gazette, 1994).

Pepper, FS, *20th Century Quotations* (London, Sphere Publications, 1984).

Rhodes, David, *The University of York Rent Index* (Centre for Housing Policy, York University, online www.york.ac.uk/inst/chp - accessed on 20 August 2007)

Ricardo, David, *Principles of Political Economy and Taxation* (London, G. Bell & Sons, 1817).

Smith, Chris *et al*, *Focus on People and Migration – Chapter Four: The Changing Age Structure of the UK Population* (Office for National Statistics, 2005).

Smith, Sarah *UK State Pensions* (Economic Review, 18(3), February 2001).

Turner, Adair, *A New Pensions Settlement for the Twenty-First Century: The Second Report of the Pensions Commission* (Pensions Commission website, www.pensionscommission.org.uk, TSO, 2005).

United Nations, Department of Economic and Social Affairs, Population Division (2007). *World Population Prospects: The 2006 Revision, Highlights*, Working Paper No. ESA/P/WP.202.

Whitten, D, *Japanese Property Prices: The End of Deflation is Near* (online at www.ecademy.com/node.php?id=29896, 31 August 2004)