

Rather than being just a cyclical effect, the growth in demand for private rentals fits into a broader pattern. Loans for first-time buyers were on a downward path well before the crisis, because of high house prices. Meanwhile, immigration and rising numbers of single-person households have driven demand for rented accommodation. "Growth in the private-rental sector is hard-coded into the UK market," claims John Heron of Paragon Mortgages, a specialist buy-to-let lender.

But so is the aspiration eventually to buy one's own home. For most people, the housing market still offers a stark choice: rent or take on lots of debt for a house pur-

chase. That could change, however. Castle Trust, a yet-to-be-authorised lender in Britain backed by JC Flowers, a private-equity firm, plans to offer savers investment products tied to a national house-price index. It will use the money it raises to offer mortgage products where borrowers do not pay interest in return for handing over a slice of their equity to the firm. If prices rise, some of the capital gains are shared with the lender; so are a proportion of losses if prices fall.

The marriage of housing and financial innovation may look like an ugly match in light of the crisis. But ideas like these could yet prove one of its lasting legacies. ■

public-sector tasks to the private sector laid the foundations for firms taking over such services as school and hospital meals, buildings maintenance and even staff training. One leading outsource firm, Capita, still depends largely on the British public sector. But others have moved into new areas and international markets.

Serco, for example, runs private prisons in Britain as well as the Dubai metro and American military field hospitals. Balfour Beatty became known as a construction firm but now calls itself an infrastructure company, investing in transport systems and providing professional and support services in many markets including America, Hong Kong and the Middle East. G4S's activities range from delivering cash to banks to creating security systems for buildings and fire protection systems for America's space agency, NASA. Many of these firms benefit from long experience of public-private partnerships, which were pioneered in Britain (and often have a poor reputation there) but have spread to other countries. Professionals, versed in the complex contracts these partnerships often involve, follow in their wake. In Budapest, Kiev or Moscow you will come across London lawyers who have seen it all before. Many have even learned local languages in pursuit of lucrative fees.

The professional and business-services firms share some of the City's worries about being based in and around London. They fret about lack of airport capacity for direct flights to new markets, such as inland China. They gripe about a high top rate of income tax and restrictive immigration policies. They face growing competition from business centres in Asia and the Middle East. But at least they don't have to deal with politicians breathing down their necks and scrutinising their bosses' pay. ■

## Professional and business services

# Unsung heroes

### The British economy's best-kept secret

THE court battle between Roman Abramovich and Boris Berezovsky, which centres on years-ago dealings in a Russian oil company, has kept London's high court busy for the past three months. It has provided amusement to Russian journalists, who are keen to peek inside the lives of two rich men. And it has plumped British lawyers' pockets by an unknown, but surely considerable, sum. Law seems to be defying wider economic trends: according to the latest official figures, turnover has grown by about 10% in the past five years. Two of the world's top five firms are based in London, and last year alone the number of solicitors swelled by 3.5%. Law is a thriving export industry, with foreign earnings accounting for about 25% of the total.

Talk of rebalancing the economy away from harmful, ethereal financial services and back to honest manufacturing tends to overlook a large, thriving business sector that falls roughly between the two. Taken together, professional services (lawyers, accountants, architects and so on) and business services (anything from IT and call centres to security, training and catering) are worth 17% of the economy. That compares with 11% each for manufacturing and retailing, and 10% for financial services. They generate huge foreign sales, too. In 2009 the Treasury estimated that professional services alone accounted for half of Britain's annual services exports. Britain was the clear European leader in this respect.

Lawyers, accountants, management consultants and other professional-services grunts are drawn to London partly for the same reasons financial-services firms cluster there—the global ubiquity of

English and a time zone midway between the rich old world and emerging Asia. Partly, they are attracted to those financial-services outfits, which create business for them. Earlier this month Aon, an American insurance company, said it was moving its head office to London from Chicago. Its main reason was to be closer to its growing number of clients in Asia, but London's range of professional services was part of the attraction.

The less glamorous business-services sector is a child of the 1980s. "The Thatcher era got it going," says Mark Fox, who runs the Business Services Association. The then-prime minister's drive to contract out

