Report From Germany by Rainer Apel

Stop the Sell-Out of Germany!

Locust funds, on a takeover offensive, are seeking a Summer of spectacular inroads into the German economy.

On the sidelines of the mid-July meeting of the American Chamber of Commerce, held in Dresden, hints were made about a "Summer of spectacular inroads into German business," by hedge, equity, and other investment funds, called "locust funds" in Germany, because of their voracious conduct. These funds are zeroing in on: publicly owned housing companies which cash-strapped municipalities have been convinced to sell, to improve their budget situation; heavily indebted *Mittelstand* (small- and medium-sized) industrial firms, whose non-performing loans the creditor banks want to sell off; and other public property, like urban transport systems, which desperate municipalities have agreed to privatize. Two weeks after these rumors from Dresden, the "Summer offensive" has been launched, while the politicians and financial watchdogs are on their Summer recess between the end of July and the beginning of September.

In a historic first on July 24, the sale of 51% of the city of Pforzheim's bus system, to the French conglomerate Veolia, was announced, to "save" Pforzheim more than 20 million euros for running the bus service over the next ten years. Pforzheim is the first city in Germany to sell a majority of a public transport system to a private investor. Veolia's transport division hopes to get more such deals, with other cash-strapped municipalities. Veolia is part of the former French Vivendi conglomerate, put together during the late 199Os by ex-Lazard banker Jean-Marie Messier (who has quit Vivendi in the meantime).

On July 24, another historic first was announced: the sale of state bank shares. Twenty-seven percent of the HSH Nordbank, the joint central bank of the two northern German states of Hamburg and Schleswig-Holstein, are being snapped up by the U.S. hedge fund Cerberus, from West LB, the central bank of the German state of North Rhine-Westphalia. When the government of Schleswig-Holstein also sells off its 20% share of HSH Nordbank, as is planned, the new private owners would become the actual majority owners, holding 47% of its shares.

A few days later, the municipality of Erfurt announced it would sell 5,100 (25%) of its publicly owned housing agency KoWo to a private investor, and the municipality of Freiburg wants to do the same, selling 90% of its respective agency (8,300 apartments). This pattern follows the example set by Dresden, which, in early March, sold off its entire public-housing sector WoBa, of 48,000 apartments, to the U.S. fund, Fortress, hoping to get rid of its entire public debt. The price that Fortress paid, 1.7 billion euros, led real estate insiders to surmise that "something other than just helping Dresden out of its indebtedness" was behind behind the deal. Experts told this author talked to, in March, that they suspected Fortress of planning something "big" later this year, when most of these newly acquired apartments were put on the market, unleashing a new round of real estate speculation.

In fact, Fortress made an announcement alluding to this, on July 24, saying it would sell 40% (64,000) of the 160,000 apartments it owns, on the stock market, beginning in October. With a transaction volume of about 1.5 billion euros, experts expect this move to cause other locust funds in the real estate and housing sector, such as Cerberus, Terra Firma, and Morgan Stanley, to begin mass sales as well. The big sale operation has a dual face, however: On the one hand, the usually heavily indebted funds are increasingly forced to liquidate property, to make money to pay old debt; on the other hand, some funds hope to buy cheaply, when mass sales by other funds drive prices down. Six hundred thousand formerly publicly owned German apartments are already in the hands of private funds, which are eyeing the other 2.1 million for takeover.

The aggressive nature of the funds that earned them their popular name, "locust," is particularly underlined by the conduct of the British Terra Firma group. On July 25, the press in Germany reported that Terra Firma forced a 50% increase in debt on its German expressway service station operator Tank & Rast. The combined debt is going to be paid for by decreasing number of service stations (now 340), and increasing the leasing rates—in many case doubling them from 2005 to 2007. Such price increases can also be expected by renters of the recently privatized apartments.

Terra Firma, which only put down 300 million euros of its own, pulled off the caper with the assistance of two prominent synarchist banks—Royal Bank of Scotland, and Société Générale. This case underlines the urgency for legislation that bans these kinds of heavily leveraged takeover operations. But for such legislation to be discussed, the lawmakers and financial watchdogs first would have to return from their Summer holidays.