

THE GLOBAL FUNDISATION OF HOUSING FIRST SKETCH AND QUESTIONS

SITUATION IN GERMANY

International speculative financial capitalists, in particular so called Private Equity Funds, are invading the housing markets by buying huge housing stocks and whole companies from their original owners or shareholders. In Germany the original owners who sell their housing stocks at the moment are mainly public institutions and industrial or energy corporations.

Within the last 18 months in Germany nearly half a million flats were sold to international funds. Most of the affected housing stocks are former "social housing" or company flats, which build significant parts of mass housing in Germany.

The most important sales since 2004:

- The public pension fund BfA sold its housing branch GAGFAH (82.000 mostly very well maintained flats) to the US based Private Equity Fund FORTRESS for 3,5 billion Euro. With this coup FORTRESS succeeded to establish a strong basis for coming business in Germany. Although the public sellers had been able to include some guarantees for the security of rental rights and the maintenance of the company into the sale contract the new owner immediately started preparations for the sale of single flats or houses to individuals. Fortress is orientated to bring the housing to stock exchange
- The federal state of Berlin sold the GSW with 66.000 flats to a group of Cerberus and Goldman Sachs for 2,1 billion Euro
- The large industrial corporation ThyssenKrupp sold its housing branch to a consortium of Corpus and Morgan Stanley. The affected 48.000 former company flats for steel workers are concentrated in some cities in the Ruhr District in western Germany
- At the beginning of 2004 the largest German housing company Viterra (owned by Energy trust E.on) sold 27.000 former social company flats to a leasing company called KGAL/Mira for a fast cash flow. Most of the affected housing schemes (all in Ruhr District) meanwhile were sold to regional speculators, who then cut the workers' neighbourhoods into pieces and sell the single flats or small multi-storage houses to owner-occupants who may have the right to notice the old tenants.
- Finally, in May 2005 the E.on trust sold the whole Viterra company with

155.000 flats to the British based Private Equity Fund TERRA FIRMA for the extraordinary sum of 6 billion Euro. Over 80.000 of the affected flats are situated in the Ruhr District. The rest mostly consists of housing stocks which originally were owned by public share holders in other parts of Germany and bought by Viterra.

TERRA FIRMA originally developed from a branch of the Japanese Nomura Bank and is very active in the privatisation business in Britain. Some years ago TERRA FIRMA already bought the housing stocks of the former public German railways and started the single ownership transformation there. The German housing branch of TERRA FIRMA is called GERMAN ANNINGTON. Though clearly dedicated to trade with flats they so far tried to keep a good image. Nevertheless, a few weeks after the sale there are already news that ANINNGTON seeks to fire 500 employees and to raise rents to the possible maximum.

These examples show a very rapid process of "fundisation" of mass housing in Germany, which originally was controlled by local landlords, regional low-profit companies, co-operatives and public companies.

It is sure that we are just at a starting point. Enormous additional transactions are expected soon.

CONSEQUENCES ON HOUSING

All funds seek for high profit rates over 20 % and only plan for some years. Because normal interest rates in the mass house renting branch are below 5 % it is not possible to achieve that profit goals through simple renting and administration of the housing stocks. The main answer are transformations of housing schemes to single ownership flats and the massive sale of the flats to speculators or end users. You can say their business is the plundering of given housing infrastructures.

The most critical consequences on rental security and social housing conditions are:

- The new buyers of single houses or flats can notice the original tenants if the owner needs the flat/house for himself or the family. There are some laws, regulations and contracts to limit this possibility to notice the original tenant. But the realization of these tenants rights always requires good information and organization. Further more some of the legal regulations get under fire by the new conservative-liberal majority.
- Fearing notices and evictions a part of the tenants tend to buy their flats even at prices which are significantly too high and even if they are old and hardly can afford the repayment of loans. The fears are systematically used by the speculators who use all kinds of psychological pressure. Another massive reaction is leaving the affected neighbourhoods.
- The transformation from "collective" housing modes to "private" has

massive consequences on the social balance within the affected neighbourhoods, the design of the areas and public and green spaces. New owners are often not capable to manage the houses in an adequate way. Many experiences in the Ruhr District show that the invasion of working class districts by single ownership leads to mobbing and neighbourhood conflicts, even those with an ethnical character.

- Public and local authorities loose their traditional housing business partners, which in former times were not mainly orientated in maximum profits. This is an extraordinary problem in districts where city renewal or coordinated reactions to shrinking populations are needed

- Generally the German housing markets loose a significant proportion of comparatively low-priced rental housing stocks. The high proportion of rental housing in its various forms in the total housing stock, and especially the important role of institutional landlords with limited profits, is one of the reasons for comparatively low rents in parts of the country and various chances to access housing by poor. With respect to housing for the marginalized and poor public housing companies and especially communal housing companies play a leading role.

- The "fundisation" of the German housing market also means a heavy concentration of economic control to a few international agencies. While single or local small scale sales could not change the main trends in German housing markets, the concentration of economical control could. Even a moderate rent increase can have massive effects on the general market if it gets realized in half a million flats. The new funds also develop strong tools of lobbying the governments for their interests. They are obviously leaving the path the associations of institutional landlords have followed so far.

- All these sales build a part and an engine for massive speculation with housing which leads to bubble. The explosion of this bubble may have very serious consequences on the maintenance of housing and economy in general.

REASONS

To understand the reasons for these developments we must look at the two aspects: The reasons for the interest to buy and the reasons for sale.

The reasons for the high interest of international funds in German housing stocks first of all lay in the global economy of real estates.

Rates for loans in the industrialized countries are very low. Interest rates in most fields of productive investments as well. Thus people with some income - especially in the US and UK - tend to invest their money in houses and real estates, which seem to be more secure. In the US and UK and other countries this tendency lead to a strong development of speculative house sales..

At the same time in many countries rents for rental flats cannot be increased rapidly. While the prizes for house sales explode the rents only follow slower. The gap between interest rates through renting and selling makes the sales and the transformation of rental housing into owner-occupied housing even more attractive. Buying housing schemes, cutting them into pieces and selling the pieces at speculative prizes which get refinanced by cheap loans became a very attractive business.

Within this business corporations with access to high capital stocks of course build a leading force. Pension funds and other types of accumulated capital intensively seek for investments which allow high profit rates within global competition at stock exchanges. The development of the leading role of large Private Equity Funds with their high capacities in financing and information explains the fast globalisation of housing conjunctions and the extraordinary role international corporations play within this game. Another aspect is the existence and development of tax free or reduced investment chances or off shore residence of the firms.

The housing bubble reached the global markets and even the European continent, first the housing crisis regions in prospering areas with high increases of rents and prizes like Spain and the Paris region. Then even the less attractive zones like the French provinces and finally even the regions with decreasing populations in Germany.

While the collected capital may have local origins the transfer of financing and business modes gets controlled by the international Funds, which mostly originate from the US. These agencies make systematic use of the differences at the national housing markets and diversificate their portfolio: investments into bubble markets nearly at their peak as well as in markets which so far have not been touched. By this strategy they even react to the raising risks of bubble explosions in US, UK or even France. But they never can change their attitude to be orientated on short term risk investments with high profit rates.

The new owners finance their shopping tours by huge credits on the financial market, some say 90 %. On their own capital stock they intend to make profits of at least 20%. That is not possible with solid renting. Thus it is a principal goal of these companies to use the gap between rents and house prizes (or even invent such gap), cut the original neighborhoods into pieces and sell these to speculators or final users. Because these have the right to quit the original tenants the play can continue until a market is satisfied. Then the funds will seek for other regions to implement their plundering strategies.

For private owners the first reason for sale in this situation is clear: they want to profit from the bubble. A second reason, especially in industrial and energy trusts, is the fact that these trusts own huge real-estates and housing stocks which in former times had been needed as social and material infrastructure for production. As far as production globalises and the need for attracting labourers through the provision of

housing disappears these real estates and infrastructure become useless for the share holders. They concentrate on their key businesses and need fresh capital to globalise these key branches through shopping tours world wide.

The best example is the Viterra/Eon case. The housing stock of Viterra originally was totally produced for the workers needs in the coal mines, the steel and chemistry factories in the Ruhr District which at large extend was controlled by the forerunners of the Eon trust. Eon itself is the result of a merging process of two large trusts with a mixture of activities from energy over chemistry to facility services. After the merging Eon concentrated on energy, especially gas, and water. At the same time it globalises this businesses through buying companies in the US, Britain, France and elsewhere. The sale of Viterra now gives Eon the money to intensify the globalisation. They want to invest the profits in buying gas companies in Italy.

Another even more important factor for sales are the public owners or shareholders. The reasons for sales of public housing stocks can be ideologically or be based on the interest of national middle classes and house speculator lobbies or a combination of both. But mostly the lack of money of the public institutions and - in Germany - especially the crisis of finances at local administration levels builds the main factor that even social democrats turn to sales of public housing.

An additional factor must be seen in transnational deregulations and free market orientated re-regulations of financial markets, like the so called Basel II standards which make it more and more complicate to receive loans for investment in social or rental housing.

SITUATION IN OTHER COUNTRIES

In France and in particular in Paris there is a phenomenon very similar to Germany. The overtaking of private home owner companies through private equity funds and transnational companies speeded up the transformation of rental flats at the nice boulevards where the middle class lives. Many have to leave because they cannot pay the exorbitant prices. Those who have to leave may buy flats in the poorer parts of Paris, with the consequence that the original dwellers there have to leave to suburbs.

In Italy a partly comparable process of privatisation started some years ago. At the Italian market US groups like Carlyle but even the German Deutsche Bank are active.

Britain and the channel islands in some sectors had been the starting base for activities of Private Equity Funds in European housing. Terra Firma privatised housing stocks of the army. Even Fortress started up with privatisations in Britain.

Of course Private Equity Funds play even an important role at the Asian housing markets.

REAL ESTATE INVESTMENT TRUSTS (REITs)

The economic developments are supported by pro-speculative policies. The most clear example is the introduction of so called Real Estate Investment Trusts (REITs) in many countries. These trusts originally developed in the US. They are real estate companies at the stock exchange. They do not have to pay taxes on the company profits.

In France REITs were introduced 2 years ago and this seems to have significant effects on the bubble and giant sales of shares.

At the moment the German and British government are planning to introduce them a well.

REITs and private equity funds are not only active in housing. Offices, public infrastructure and of course land are important merchandises as well. In Germany it is estimated that the mid-term potential for privatisations and other sales of real estates to REITs is about 100 billion Dollars. This figure probably includes all types of public infrastructure like schools etc.

In Honkong after the introduction of REITs there seems to be a real wave of new speculations with consequences on raising rents. Some articles speak about a new beginning speculation bubble in eastern Asia, stimulated by REITs.

CONSEQUENCES FOR INTERNATIONAL NETWORKING?

If all that or parts of it are true we are faced to a very clear and concrete direct globalisation of housing and land ownership with parallel effects and even similar reactions at very different places of the globe. Dwellers in Asia and Europe, or US and Europe etc. may have the same capitalist as final landlord or land owner. A situation which cries for seeking for new types of international networking.

In the long run we would have no other chance than building counter forces at global levels - against these multinationals and their helpers in governments and financial institutions. The situation would become similar to the already given situation in the water privatisation market.

I am far away of being sure about the whole picture and the consequences for strategies. But we should try to build - step by step - a better knowledge base and networking on this issue.

in Germany and other European countries housing conditions are faced to rapid direct globalisation of the real estate markets. The intensity and quantity of this process is a new phenomenon at least in Germany.

Habitat Net Germany is seeking for contacts in order to discuss the developments, exchange information, build a common knowledge base and seek for common strategies.

FIRST QUESTIONS

Are you already working on these issues?

Would you be interested in exchange?

Do you know peoples' organizations, NGOs or movements, critical researchers or journalists who could be interested in contacts on these issues?

Do you know publications or documented experiences?

Are there people which we could ask some questions?

For example:

Which role do private equity funds play in the land/housing market in your country?

How do social organisations or movements react?

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