

In Germany, a (For Sale) Sign of the Times

U.S. Firms Buying Communist-Era Public Housing

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Washington Post Foreign Service

Thursday, March 23, 2006; A16

DRESDEN, Germany -- One of every five people in this eastern German city, population 500,000, found themselves with a new landlord this month: an \$18 billion American investment fund.

On March 10, cash-strapped Dresden became the biggest German city to sell its entire stock of public housing, handing over title to 48,000 rental apartments to Fortress Investment Group LLC, a New York-based asset management firm.

The deal generated \$2 billion for the city, enabling it to wipe out its public debt, but unleashed widespread anxiety among Germans who have long relied on government -- communist and capitalist alike -- to provide a social security blanket.

Fortress is one of several investment funds that have been snapping up huge swaths of public housing in a privatization campaign by the German government. Sales are particularly brisk in cities of the formerly communist east, where generations of people lived in hulking, factory-built apartment complexes.

Fortress has promised to preserve low rents in Dresden and not force residents from their homes, for the time being. But many Dresdeners contend that their government has entrusted their future to a faceless foreign investment group that will pay little attention to the public good. They call such companies "locusts."

"It's taboo to treat public housing as speculative investments," said Ralf Hron, regional director for the German Trade Union Association, which opposed the sale. "We're at a phase right now in which the debate is over how much can globalization control our lives."

"What is going on in Dresden is just the beginning," he said. "Other eastern German communities are being put under massive pressure to do something similar. And the locusts have an insatiable hunger and tons of money."

More than 45,000 people signed a petition urging the Dresden City Council to reject the sale, spurred by worries that promises to keep rents low will inevitably be broken by profit-minded landlords.

Among those who oppose the privatization are Gisbert and Gabriele Merkel, a couple living on the fifth floor of an apartment complex built in the 1960s. With 500 square feet of living space, their home consists of a tiny kitchen, a balcony, one bedroom and a living room with just enough space for two visitors and their pet parakeet, Bubi.

The Merckels are happy with their apartment, which was renovated about seven years ago and rents for \$430 a month. But it's barely affordable on the modest pension that Gisbert Merkel, 64,

earned after toiling for 33 years in an East German wallpaper factory. He worries that his wife, who is 56, won't be able to pay the rent and could be evicted after he dies. "The elderly are naturally more afraid," he said.

"I don't know anyone who is pleased about this," added Gabriele Merkel, explaining that she would prefer a local landlord who was "more aware of Dresden's problems."

Dresden is still recovering from massive Allied firebombing that incinerated the Elbe River city near the end of World War II. The jobless rate is 16 percent, higher than the national average but lower than the rate in most other eastern German cities, which are still struggling to make the transition to capitalism.

The communist-era apartment towers still loom everywhere in the former East Germany, the legacy of central planning that gave everyone a home, even if it was just a cramped, concrete box.

Since the fall of the Berlin Wall in 1989, German government agencies have spent huge sums of money to spruce up public housing, sometimes painting buildings in bright colors, as part of a long-standing social contract to guarantee an affordable home for everyone. But in a time of extended economic stagnation, that sense of security is vanishing, undermined by mountains of debt and the forces of globalization.

A spokesman for Fortress's German division, based in Frankfurt, declined to comment for this article. But at a March 10 news conference, Matthias Moser, managing director of Fortress Germany, said the firm likely could not raise rents even if it wanted to, because Dresden has a surplus of housing. More than 8,000 of the apartments acquired by Fortress in Dresden are empty. About half of those are slated for demolition in the next five years.

"Our operating plan will only function if we succeed in sizably reducing the number of empty apartments," Moser said. "That will only work with modernization and good service for the tenants."

Mayor Ingolf Rossberg, who pushed for the sale, said Dresden required Fortress to sign a lengthy contract that protects tenants' rights. One provision guarantees that current residents who are at least 60 years old can stay in their homes for the rest of their lives. "Believe me, it's watertight," the mayor said in an interview in his office at city hall.

"Of course people are worried that things aren't going to be the same," he said. "This is breaking a taboo, so naturally I can understand people asking questions. They want to know, are they going to have to call America if their water faucets are dripping?"

He said Dresden had already sold 120,000 publicly owned apartments over the past decade, with few complaints. In many ways, he added, the private sector is better equipped to provide housing for Dresden's poor and retired populations than the government, which has been plagued by red ink.

The city faced a stark choice, he said: It could sell its property or cut social services. "We had to do something," he said.