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The Great American Yard Sale

By Jeff Israely/Paris, William Boston/Berlin

When Belgian-based, Brazilian-controlled InBev launched a hostile offer for American beer king Anheuser-Busch last month, xenophobia quickly foamed to the top. Beer drinkers in St. Louis, Mo.-A-B's home--vowed to swear off Bud if those foreigners bought "our" beer. They'll get over it. A-B's shareholders sure did, considering the \$52 billion price tag, which at \$70 a share was a 27% premium for a stock that had gone flat. The ruling Busch family ultimately faced up to the fact that the U.S. is for sale, and foreigners are buying. It's everything from the St.-Tropéz crowd buying up condos in Palm Beach, Fla., to Asian and Middle Eastern governments sinking billions into U.S. banks to Europeans taking over U.S. pharmaceutical and infrastructure companies. Even tourists are busy using their euros and pounds to snap up iPhones, jeans, shoes and everything else they can stuff into the empty suitcases they carry along for just that purpose, damn them.

The weak dollar and our weakening economy are underwriting the great American yard sale. Investors from Dubai are behind the June purchase of the General Motors Building in New York City for \$2.8 billion. The Abu Dhabi Investment Council's sovereign wealth fund bought a 90% stake in the landmark Chrysler Building. General Electric's plastics division is gone, and its famed appliance unit could soon be in the hands of China's Haier or South Korea's LG. Chrysler is hoping to hook up with India's Tata Motors or Italy's Fiat. Switzerland's Roche Holding is offering about \$44 billion to acquire the 44% of the biotechnology outfit Genentech that it doesn't own. The surge of foreign buying spans the economy. Since 2003, foreign-led mergers and acquisitions have increased more than sixfold. Last year there were over 2,000 foreign-led acquisitions of U.S. companies in deals worth some \$405.4 billion, twice the value of deals in 2006 and up from \$60.8 billion in 2003, according to Thomson Reuters, the financial-information company. Unlike the 1980s panic about the Japanese buying up American landmarks like Rockefeller Center, the response of the financial establishment has been to welcome the latest rush of foreign investment. "The U.S. needs these flows, particularly now," says Bank of America chief market strategist Joseph Quinlan. "It helps create income and jobs for Americans."

That would include Anne Marie Moriarty, a vice president at Corcoran Real Estate Group, who shuttles between New York City and European capitals, tempting foreign buyers with choice American properties. Moriarty is brokering the \$16 million sale of an apartment in Manhattan's Chelsea neighborhood to an Italian buyer, just one of the latest in her run of foreign deals. She says that since March 2007 her residential sales to foreigners have doubled, which is part of the reason that New York's real estate prices have held up in an otherwise tanking market. "It's bucking the trend," says Moriarty. Foreigners "see it as a long-term investment. Part of [real estate] for them is owning a piece of New York."

Foreign companies were also the buyers in four of the top U.S. commercial real estate deals in 2007, according to Real Estate Alert newsletter. Rome-based investor Valter Mainetti has been building his Michelangelo Fund around trophy properties, ones that have historical or architectural value beyond their location and square footage. In 2006 he acquired a minority share in New York City's Flatiron Building, a property that today is valued at \$180 million. In June he raised his holdings to a 53% share of the famous building. "The Flatiron is expensive, but with the [cheap] dollar, it made sense to increase our share," says Mainetti. "The stability of the New York real estate market is unique. This current crisis will pass, and the dollar will re-establish itself. We are confident."

Foreigners spent \$52.2 billion on U.S. commercial real estate in 2007, double the previous year's total, according to Real Capital Analytics, a research group based in New York City that tracks property investment. Dan Fasulo, head of research at Real Capital Analytics, says foreign investment in U.S. property is a relatively recent phenomenon. He compared the current trend to the globalization of stock-market portfolios in the 1980s. "This isn't just about the dollar. The strongest driver is that investors are looking for geographical diversification. The same situation played out on Wall Street about 10 to 15 years ago," he says.

Buy American (Companies)

Over the past five years, foreign takeovers of U.S. companies have steadily risen. Among the more notable: Swiss pharmaceutical maker Novartis' \$39 billion staggered buyout of Alcon, the world leader in eye care; British energy distributor National Grid's takeover of utility KeySpan Corp. for \$11.8 billion; Saudi Arabian petrochemical company SABIC's acquisition of GE's plastics division for \$11.6 billion; and Italian aerospace company Finmeccanica's pending takeover of the U.S. military contractor DRS Technologies in a \$5.2 billion deal. Some 55% of foreign direct investment in the U.S. came from the Old Country last year, with extra impetus now coming from its currency advantage. Says Scévole de Cazotte, senior policy director for Europe at the U.S. Chamber of Commerce: "European companies are very much conscious of the potential windfall. You buy cheap now with the belief that in 10 years the currency will have rebounded."

Infrastructure is a prime example. Barcelona-based Abertis has been buying up airport-operation contracts from Atlanta and Burbank, Calif., among others, and a variety of service contracts in tele communications and parking garages. Now it is seeking a \$12.8 billion deal to operate the Pennsylvania Turnpike, but the state legislature has balked. The road to growth leads to the U.S., says Abertis spokesman Toni Brunet, who notes that states and municipalities have lagged behind European public entities in privatization. "In terms of infrastructure, the U.S. is an emerging market," says Brunet.

Indeed, European infrastructure firms calculate that the U.S. needs a massive infusion of capital to modernize its roads, bridges and power lines, highlighted by a recent spate of blackouts and the tragic collapse of a Minneapolis highway bridge last year. Steve Lucas, cfo of British power utility National Grid, says estimates are that the U.S. will spend \$2 trillion in the next two decades upgrading electricity and gas infrastructure. "That's bigger than China," he notes.

The U.K.-based utility has been on a shopping spree that--while hardly anyone was looking--has transformed the company into a force in power and gas in the U.S., serving 4.4 million electricity customers and 3.4 million gas customers. In 2000 it bought New England Electric System and the Eastern Utilities Association. Two years later it grabbed Niagara Mohawk. Then in 2006 it scooped up Rhode Island Gas, and last year it completed its acquisition of KeySpan. That deal put National Grid among the top five distributors of electricity and natural gas in the U.S.

Shopping for Innovation

It's not just about accumulating buildings or businesses. The U.S. is also a technology supermarket. Talk to Peer Michael Schatz, CEO of Qiagen, a German biotech firm that is a leader in technologies to isolate and prepare DNA and RNA for medical testing. Last year Qiagen merged with Digene, a U.S. biotech group that has developed groundbreaking diagnostic technology for the early detection of cervical cancer. Schatz says constant shopping for innovation in the U.S. is a key to his business plan, scouring technology-auction sites of American universities, searching for the right technology in the early phases of development. "The difference between the U.S. and Europe is that the U.S. has stellar science and a rapid rate of innovation and transferring that technology to the market for commercial purposes," he says. "No other country comes close."

There's even an upside to the relative cheapness of the U.S. dollar. Volkswagen CEO Martin Winterkorn wants to boost the number of VWs the company sells in the U.S. to 800,000 over the next decade. But he has to cut costs to get the price down, which means building the cars on American soil with more U.S.-made components. So in July, Volkswagen announced plans to build two new sedan models in a \$1 billion plant in Tennessee. VW hopes to export cars to Europe. "They could save \$8,000 a car by building in the U.S.," says Sean McAlinden, chief economist with the research group Center for Automotive Research, based in Ann Arbor, Mich. "The market has changed. It will be a much bigger market for the kind of small car with advanced technology that the Europeans are so good at making."

And it's not just Volkswagen. GM's European-manufactured Opel Astra is expected to be built in the U.S. in the future. Volvo, writhing under the burden of the weak dollar, has reportedly asked Ford to find facilities for it to produce Volvos in the U.S. instead of Sweden.

Viewed from ground level, rising investment in the U.S. looks like a great thing. Without the inflow of foreign capital, the dollar would probably be even weaker and interest rates and inflation could be higher. But Joseph Stiglitz, a Nobel Prize winner and former chief economist of the World Bank, says there may not be a happy ending. For years, Stiglitz has warned that Americans are living beyond their means. The U.S. trade deficit exceeded \$712 billion last year, or 5.1% of GDP. That's nothing more than America's borrowing money from abroad to support a lifestyle that is unsustainable. But whether foreigners are now buying hotels, pharmaceutical companies or utilities, the numbers tell us that the rest of the world is no longer willing to foot the bill to feed America's consumption habit. "It's not just that American assets are cheaper. The untold story here is that foreign investors are no longer willing to finance American debt," says Stiglitz. "They now want equity."

We used to measure the economy in terms of GNP, which is the amount of income produced by U.S. citizens. But now we measure it by GDP, the income that is actually produced in America. The distinction becomes important, says Stiglitz, when an increasing proportion of the country is owned abroad. "If you were to look at America Inc. as a company, it's like owning a company and you own a smaller and smaller fraction of it. So the fraction of America Inc. owned by Americans is diminishing," says Stiglitz.

That means that when the economy recovers, there will be less wealth left in the country to reinvest in it. But then returning to the original question--Why is the American yard sale not setting off alarms?--Stiglitz explains that the alternative is even worse. "There isn't an outcry," he says, "because the focus right now is the weakness of the American economy, and anything to keep our economy going is welcome." That's why no one really objected to Citibank's becoming a Middle Eastern--financed bank, because it's better than Citi's becoming a dead bank. "But clearly we're worse off as a country," he says.

When the dust settles on the current downturn, the U.S. economy will probably regain its dealmaking swagger. But unlike the Japanese experience in the 1980s, the current trend of foreign buyouts won't be unwound. Yet the only way for the U.S. to avoid becoming a second-rate economy is to make the investments necessary to stay ahead in knowledge and innovation. Will we do it? There are a whole bunch of rich foreigners who have just bet their future on it.