Morgan Stanley eyes Orchard

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Morgan Stanley Real Estate is looking to take control of Orchard Fund Management's $1.2 billion platform, with an eye to becoming a dominant player in the unlisted property sector.

The US giant's property arm, Morgan Stanely Real Estate, is already a big player in Australia. **Photo: Reuters**

The Melbourne-based retail property investor has announced it has given exclusive due diligence to an unnamed party – understood to be Morgan Stanley– to transact its funds management business.

If Orchard's 700 shareholders agree, a deal could be cut before Christmas.

The US giant's property arm is already a big player in Australia, after privatising Investa's listed commercial property assets for $4.7 billion just before the financial crisis struck.

The US investment bank also has a half stake in the Grand Hotel Group. For some time it has been scouring Australia's unlisted property sector for a platform with scope to build a significant presence.

Last year it was thwarted in its quest to secure Becton's distressed property funds management arm.

Earlier this year it came close to securing a formal due diligence dealing period with Orchard.

The US bank's move is a confidence boost for the entire unlisted sector, which has struggled to decrease leverage and give investors liquidity since the credit crunch.

The key for Morgan Stanley getting in the door at Orchard the second time around is support from the fund manager's lender, Bank of Scotland International.

The bank has around $15 million owed by Orchard's funds management vehicle and as much as $150 million tied up in its largest vehicle, the $555 million Diversified Property Fund.

Morgan Stanley's offer to take out the BOSI debt earlier this year – described by some in the industry as "low ball" – was flatly rejected by the Lloyds subsidiary.

This time, it appears the US property investor is looking to underwrite a raising of new equity across Orchard's funds, which could then be used to pay down debt.

The British lender is looking to exit its exposure to Orchard, after earlier tipping in additional capital to secure its position.

A second lender, National Australia Bank, has direct security on Orchard fund properties, and appears to backing the mooted deal so far.

The process would reduce gearing across Orchard's funds, many still frozen, allowing distributions to resume and finally allow redemptions for Orchard's 16,000 retail investors. If successful, the proposal enables Morgan Stanley to take over the Orchard platform, paying out the BOSI debt and offering at least $8 million in liquidity to shareholders.

Any deal would be a considerable achievement for Orchard's directors and management, which took over after a boardroom coup led by disgruntled investors earlier this year.

At their helm is chairman Curt Roberts, who yesterday declined to reveal the identity of the counter-party.

Since the April reshuffle, Orchard has had a series of suitors, including listed players Cromwell Property Group and Australian Unity Investments.

A bid by private equity player Barwon Investment Partners also failed to win shareholder support.

Mr Roberts said the new proposal bettered Barwon's offer, which valued the platform at $8 million but offered liquidity of only $1 million to $2 million to shareholders.

The Australian Financial Review

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