Orchard activists deliver with MS deal

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Nick Lenaghan

Orchard Funds Management has agreed on a $200 million deal with Morgan Stanley, allowing the US giant to take over its management business and bolster its debt-heavy funds.

The deal gives Morgan Stanley Real Estate Fund VII control over Orchard's $1.2 billion property portfolio and a substantial position in Australia's struggling unlisted property sector.

KEY POINTS

- Orchard is to sell its funds management business to Morgan Stanley Real Estate Fund VII.
- Shareholders will get $13 million from the net proceeds.

The Orchard proposal follows Morgan Stanley's discount acquisition of $700 million in distressed Queensland property debt from BOS International last month.

The Morgan Stanley offer will be put to the 700 shareholders in Orchard's management platform at a vote three days before Christmas.

If the shareholders – who include heavyweight investors such as Kevin Seymour and Julius Colman – accept the offer, they will get $13 million for the business.

That is a hefty discount on the $77 million conversion of notes to equity that transformed a raft of creditors into owners of the platform just as the financial crisis hit.

But it is a much better deal than a private equity offer last April which valued the platform at $8 million, and delivered only $2 million in actual liquidity.

That offer was the last straw for many Orchard investors who saw their investments frozen and their distributions cut.

Their unhappiness propelled a trio of investors, led by Curt Roberts, into the boardroom in a coup that also pushed Bryce Mitchelson to the top of the management tree.

The pair are confident the tie-up with Morgan Stanley is the answer that both Orchard shareholders and the 16,000 investors in its funds have been seeking.

"What we are doing is what we said we would do when we came in," Orchard's chairman, Mr Roberts, said yesterday.

The Orchard deal involves Morgan Stanley buying the responsible entity from the shareholders, who will get around $13 million for their assets.

The US investor will put its own skin in the game, underwriting capital raisings for Orchard's biggest fund, the Diversified Property Fund, as well as the Commercial Office Fund and the Chevron Renaissance Property Trust.

That is enough to pay out $15 million in debt owed to Lloyds subsidiary BOS International.

Depending on the take-up, Morgan Stanley could end up holding up to half Orchard's major fund as it eyes growth prospects in the unlisted property sector.

Mr Mitchelson said the nature of the deal meant Orchard would improve the debt terms on its funds, allowing it to resume distributions from its frozen funds.

"That is what unit holders want to see," he said.

The Australian Financial Review

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