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HD **IOF could hit \$3.5bn in assets with Spencer St buy**
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EXCLUSIVE The listed Investa Office Fund is eyeing the purchase of a \$150 million office tower on Spencer Street in the Melbourne CBD, which is being sold by property identity Harry Stamoulis.

The fund, led by Ming Long, is in due diligence to buy 120 Spencer Street in a move that could see its assets reach close to \$3.5 billion — the trigger that may allow it to buy half of the management rights to the Investa platform.

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IOF, Mr Stamoulis and the agents marketing the building, CBRE, declined to comment.

Some sources stressed yesterday that a deal was not assured. If a sale of the 23-level building is finalised it could have implications for Morgan Stanley's sale of the management rights for the Investa platform.

The platform includes the management right to IOF, a blue-chip office portfolio recently purchased by China Investment Corporation, as well as the rights to run the unlisted Investa Commercial Property Fund.

Mirvac has entered a preferred position to buy the management rights in a deal totalling about \$400m.

But some investors in the Investa-managed funds have indicated their preference for the management team to internalise the business.

The Australian revealed on Monday that ICPF had called in Grant Samuel to provide strategic advice on an internalisation proposal, which would see the management team stay in place.

Morgan Stanley is understood to have granted ICPF partial access to due diligence materials on the management business and is awaiting a serious proposal.

Some have suggested that the group may team up with IOF to make a joint bid. IOF may be able to exercise its rights to buy half of the management platform, and therefore internalise the business, once it reaches \$3.5 billion in assets, depending on how Morgan Stanley's exit is structured.

While a deal can be structured in a way that would preclude the rights from being triggered, sources said that reaching the figure would bring the issue into focus.

Notably, IOF would also retain its pre-emptive rights if Mirvac bought the management platform.

The fund had \$3.32bn of properties under management at the end of June, with analysts saying that it would reach the trigger number if it bought the Spencer Street tower and other parts of its portfolio were revalued.

The hefty \$2.45bn price that CIC paid for the Investa balance sheet assets, on a yield of below 6 per cent, is expected to push the value of quality office towers higher in Sydney and Melbourne.

The independent board committee of IOF, which has a market capitalisation of \$2.2bn, is undertaking a strategic review.

At IOF's annual results in August, Ms Long expressed hopes the fund may deal with the suitor about its options.

"We have met with Mirvac, but that is part of Morgan Stanley's (sale) process, so it's going to be very different from the strategic review that we're undertaking," Ms Long said last month.

The Spencer Street building that IOF is looking to buy is part of a portfolio of two that CBRE is marketing for Mr Stamoulis. Industry sources said the Spencer Street tower would have a fully let income of more than \$11.5m, but its initial income would be closer to \$9.5m.

CO ajogau : Investa Office Fund | chinvm : China Investment Corp. Ltd. | dwitd : Morgan Stanley

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