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HD **Australia's Rush to Sell Assets Raises Concern**

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Australian states are moving in greater numbers toward a grand selloff of government-owned assets ranging from ports to highways, as they scramble to raise as much as $300 **billion** to upgrade the nation's infrastructure.

But the rush to do deals threatens to damp interest among potential buyers from as far away as the U.S., **China** and the Middle East as it makes putting together bid consortia tricky. Assets such as state power grids carry price tags of up to $30 **billion**, beyond the reach of many individual buyers. Also, investors worry the states won't work together to stagger the sales, making it even harder to plan bids.

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Queensland's government this week became the latest state to announce sales, with a plan to unload nearly 12% of the state's assets, which are worth as much as 34 **billion** Australian dollars (US$32 **billion**). The biggest deal would involve investors buying into three **energy** distributors--Powerlink, Energex and Ergon --together valued at A$28 **billion**.

However, investors pointed out that Queensland's plan would likely coincide with neighboring New South Wales state seeking a buyer for part or all of its power grid worth A$30 **billion**. Both have signaled the sales would begin after elections due next year.

"These governments are hot to trot on executing these asset sales," said Ross Israel, who helps manage infrastructure selloffs for state-owned QIC Ltd. "They're looking to repair balance sheets within the next three-five years."

In an effort to accelerate the asset sales, the federal government led by Prime Minister Tony Abbott is offering states a financial carrot. It has pledged to give the states a bonus equal to 15% of the **sale** proceeds from each asset.

Infrastructure Australia, which advises the federal government, said at least $300 **billion** needs to be spent on new infrastructure if the country is to escape a crippling impact on productivity. In April, Mr. Abbott approved the construction of a second major airport in Sydney amid fears the financial center would miss out on a boom in Asian tourism.

However, Mr. Abbott has so far shied away from coordinating the asset sales directly from Canberra. That has intensified investors' concerns that the push to sell assets may become chaotic, with states competing against each other for a limited number of bidders.

"If too many assets come onto the market at the same time, governments won't get the value they want and the tap of asset sales will be turned off," said Michael Hanna, head of Australian infrastructure investments with IFM Investors, a group owned by 30 Australian pension funds.

Adding to the urgency to sell assets, states such as Queensland are seeing their finances deteriorate as a long **mining**-investment boom fades. Queensland, the world's biggest exporter of steelmaking **coal**, and **iron ore**-rich Western Australia have lost their AAA credit ratings in recent years.

"The mining boom is coming off, growth is declining, the electorate in urban areas is screaming out for new trains, hospitals and roads, it's the perfect alignment of the planets," Mr. Hanna said.

According to Dealogic, more than A$12.4 billion in infrastructure deals have already been completed this year in Australia, up from A$8.4 billion in the first half of last year and A$5.9 billion in same period in 2012.

These include the sale in April of a 99-year lease on Newcastle Port in New South Wales, the world's biggest coal-export terminal, for A$1.75 billion to Chinese and local buyers. Queensland Motorways, which also attracted strong international bidding, fetched A$7.1 billion the same month.

So far, strong demand from pension funds, sovereign-wealth funds and strategic buyers has made Australian asset sales relatively easy. Among pension funds, most of the interest has come from Australia and Canada, where money managers tend to allocate more to infrastructure assets than their U.S. counterparts.

But IFM Investors' Mr. Hanna says that is changing, with U.S. investors in his own fund now outnumbering Australian clients. "They've come late to the game, but there are many coming now," he said.

According to Industry Super Australia, unlisted infrastructure had the highest long-term return of any asset class in the country around 12% over the past 15 years, compared with about 10% for unlisted property and 8% for the equity market. The peak body says Australian infrastructure assets were also much less volatile than domestic or global equity markets over the same time frame.

A big challenge for state governments, however, is selling the benefits of privatization to voters.

In March, Queensland's government launched a public consultation to explore ways to reduce state debt by up to A$30 billion. It received feedback from 70,000 people, 46% of whom said they would support infrastructure-asset sales over tax increases and cuts to services.

Queensland has incorporated a six-year sale plan into its budget that includes finding buyers for port leases and large stakes in power and water utilities. It has pledged to invest proceeds of A$8.6 billion in building new infrastructure, including a 5-kilometer bus-and-train tunnel to the city center running underneath the Brisbane River.

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